

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF UTAH, CENTRAL DIVISION

S E A L E D

BEFORE THE HONORABLE DALE A. KIMBALL

DATE: OCTOBER 7, 2011

REPORTER'S TRANSCRIPT OF PROCEEDINGS

HEARING ON PETITION

1
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1 OCTOBER 7, 2011

SALT LAKE CITY, UTAH

2 P R O C E E D I N G S

3 * * *

4 THE COURT: We're here this morning in the matter of
5 the United States of America versus a bunch of assets,
6 2:11-CV-806. Mr. Cy Castle and Ms. Jean Weld representing
7 the United States. Mr. Michael Young and Mr. Steven Brooks.

8 MR. BROOKS: Good morning, Your Honor.

9 THE COURT: Good morning.

10 Now, you have a motion for protective order.

11 MR. BROOKS: The reason for the motion for
12 protective order simply is that there is a sensitivity of
13 Mr. Taylor's client base. It's not public knowledge for a
14 lot of his clients. If it's still under seal and it remains
15 under seal, I suspect the information would not get out
16 anyway and, therefore, perhaps a protective order is not
17 necessary. To the extent the seal is released, then we would
18 ask that a protective order be entered so that the
19 information concerning American International's clients are
20 not disseminated to the public. It's very sensitive and,
21 quite frankly, if the clients were aware of the proceeding my
22 sense is Mr. Taylor and American International would lose
23 part of its client base.

24 THE COURT: We are still under seal, right?

25 MR. CASTLE: Your Honor, we are still under seal.

1 There will become a point --

2 THE COURT: Which reminds me, are there people here
3 who can't be here?

4 MR. CASTLE: No. I think everyone, Your Honor, that
5 is present, it's appropriate for them to be here.

6 Your Honor, as Court to knows, the Complaint is
7 still under seal, but there will come a point in a week or
8 two that we will have to unseal the Complaint because of the
9 requirement to serve other people who have interest in the
10 properties that we have either seized or filed a lis pendens
11 against, so there will become a point where the protective
12 order will become an issue, and we submitted objections
13 simply asking American International to simply identify what
14 exhibits they deem need to be protected, but we don't have
15 any objection to the general concept.

16 We were just not real clear which documents they
17 wanted sealed. So, if they could do that, and perhaps the
18 Court can enter an order today, then it would at least cover
19 that issue so we could move forward to have the Complaint
20 unsealed and appropriately served on the appropriate parties.

21 THE COURT: How can I enter the order today if it's
22 insufficiently specific?

23 MR. BROOKS: We're just interested in the identity;
24 if for example, during the course of this hearing, on either
25 direct examination or cross examination, a question is asked

1 about the identity of the some of the clients.

2 THE COURT: All right.

3 MR. BROOKS: Because part of this issue is going to
4 deal with the viability of the corporation. The viability of
5 the corporation is directly related to the amount of clients
6 they have on a continuing basis, the prospective clients they
7 have. It's that identity that I wish protect, sir.

8 MR. CASTLE: Does that mean we want to protect the
9 transcript of today's hearing or the clients?

10 THE COURT: Obviously at least some of it he's
11 asking.

12 MR. CASTLE: That's perhaps something, Your Honor,
13 we could do at the end of the day, not at the first of the
14 day, meaning today's date.

15 THE COURT: Maybe it's something -- Mr. Brooks,
16 maybe it's something that the two of you could confer about
17 after today and then pinpoint your disagreements, if any,
18 after that, and then I'll rule on what disagreements are left
19 in terms of what ought to be protected.

20 MR. BROOKS: That would be fine.

21 MR. CASTLE: That's a good idea, Your Honor. And,
22 like I said, all we're asking for is identification so that
23 we know.

24 THE COURT: All right. Now you know more than you
25 knew five minutes ago about what they want protected, right?

1 MR. CASTLE: Well, I wish I could say that, but at
2 least I know about the hearing part.

3 THE COURT: The clients.

4 MR. CASTLE: Right.

5 THE COURT: The clients are what they want
6 protected, the identity of the clients.

7 MR. CASTLE: Right.

8 THE COURT: All right. Now, somebody wants to call
9 a witness, right?

10 MR. BROOKS: Yes, Your Honor.

11 THE COURT: Do you need to make an opening statement
12 here today? How would you like to proceed?

13 MR. BROOKS: I would like to make just a brief
14 opening, sir.

15 MR. CASTLE: And we would, too, Your Honor.

16 THE COURT: All right. Go ahead, Mr. Brooks.

17 MR. BROOKS: Your Honor, I believe the brief and
18 the -- that we filed and the reply brief that we filed in
19 response to the government's brief boils down to one
20 particular issue. We believe -- and I'm not going to discuss
21 the merits of the case because that's for another day. We
22 obviously don't agree with the government's position that
23 there was criminality on the part of American International
24 Security, nor do we believe that an in rem proceeding should
25 exist in the first place because we believe American

1 International and its prime principal, it's only principal,
2 Mr. Taylor, was innocent of any wrongdoing.

3 THE COURT: I understand you're not waiving any of
4 those claims.

5 MR. BROOKS: That's correct.

6 THE COURT: Today you're quarreling about whether --
7 what's been seized is legitimately seized, right?

8 MR. BROOKS: That's correct, Your Honor. And we go
9 on to say that, although the government has not chosen to
10 respond to the argument that venue and jurisdiction is not
11 properly here in Utah. However, having said that, we would
12 waive that for another day as well because we are going to
13 hotly contest that particular issue, as we believe that it's
14 like an octopus, sir. The body of the octopus is in
15 Massachusetts. The tentacle, one small tentacle, is in Utah.
16 They took the whole body and brought it into Utah because one
17 of the alleged co-conspirators has a house in Utah or a bank
18 account in Utah.

19 We don't think that's proper. We believe it belongs
20 in Massachusetts. But, again, we will waive that argument
21 for today and bring it up again at an appropriate time.

22 However, we believe it boils down to one fundamental
23 issue. I don't think there is going to be any argument that
24 American International is a legitimate business. It has been
25 in existence for almost a quarter of a century, doing very

1 good work. It's an A+ corporation as far as its credit goes.
2 The community ties are clear. The principal, Mr. Taylor, has
3 lived in Massachusetts forever, except for the time he served
4 in the United States Army. And he has a family here. He has
5 children here. The business has been here.

6 And I'm, for the moment, not sure anyone could argue
7 that, as far as the hardship -- you took all their money. It
8 is a service corporation. A service corporation lives on the
9 amount of money it has. They took every cent -- not every
10 single penny. Let's just say 95 percent of the money was
11 taken and seized by the United States Government. I don't
12 know any other business that could have 95 percent of its
13 assets taken and survive in a good state.

14 So, it leaves us one fundamental issue, and the
15 fundamental issue is, is whether the taking of that money
16 represents the seizure of the business. Your Honor has seen
17 the briefs. We disagree with the government's position on
18 the law. We don't believe any case has ever spoken to this
19 particular issue because most of the money -- most of those
20 corporations whose assets were seized, including money, were
21 sham corporations, running Ponzi schemes or weren't going to
22 use the money that was going to be returned for purposes of
23 the corporation.

24 In the Gilchrist case, for example, they were going
25 to use it to pay attorneys -- not that we're opposed to

1 paying attorneys, sir, but they were were going to use it to
2 pay attorneys to establish a legitimate corporation after the
3 fact. And the Court had no trouble with that and said, "I'm
4 not going to give you your money back." And that's the
5 appropriate and we think the correct decision.

6 But that's not the case here. Here we have a
7 legitimate corporation, a viable corporation, and suddenly
8 they're put into a position of having to scramble for their
9 money. The government will argue, and I would suspect in
10 their brief they did -- they say, "Borrow it. Go into debt.
11 We won't give you your money back, but you go into debt. Use
12 your credit lines."

13 So, should we be -- should my client be in a
14 position to be forced to borrow when they have -- their sole
15 mistake was keeping the money there? They didn't buy houses.
16 They didn't by boats. They didn't buy Krugerrands. They
17 kept the money there, all visible, in one bank account.

18 The government, in their case, will argue that there
19 were multiple bank accounts, over a hundred bank accounts.
20 We only had one. And it was that one bank account that kept
21 all that money there. \$5.3 million was kept in an account.
22 Maybe not a good business practice, but it was there. My
23 client wasn't afraid. He hadn't done anything wrong. He
24 kept the money there. He used that to support his business.
25 That's his capital. That's his growth.

1 During the course of -- you'll hear Ms. Auterio's
2 testimony that the way American International runs its
3 business is, they go out and they prospect for clients.
4 That's Mr. Taylor's function. He's not a money -- he's not a
5 numbers person. He goes out and gets the clients. He's the
6 face of the corporation. And when they get those clients,
7 they have to support those clients.

8 You will hear testimony from Ms. Auterio today that,
9 in the beginning of this contract, which is the -- which is
10 the nexus of this case, is that in 2007 and 2008, when this
11 contract begins, the so-called fraudulent contract, they were
12 losing money because they had to support the expense ratios
13 necessary to start up, and it wasn't until approximately 2009
14 and 2010 that they made it.

15 We will also bring testimony before this Court to
16 show you the profit margin on that particular contract was in
17 fact about 20 percent. Normal contract profit for American
18 International was 50 percent. Now, I'm not sure, again, that
19 is what the Court needs to address, but we're here to address
20 whatever questions the Court has concerning the methodology
21 that was used in American International.

22 But I really believe it comes down to Your Honor
23 determining, as a matter of law, that the taking of almost
24 every penny of the corporation represents a seizure of the
25 business and, as such, the money should be returned to my

1 client. Thank you, sir.

2 THE COURT: Thank you, Mr. Brooks.

3 Mr. Castle.

4 MR. CASTLE: Ms. Weld will be doing this part, Your
5 Honor.

6 THE COURT: Ms. Weld.

7 MS. WELD: Thank you, Your Honor. Good morning,
8 Your Honor, may it please the Court, Jean Weld here to help
9 out Mr. Castle with the forfeiture aspects of this case. I
10 work at the Forfeiture and Money Laundering Section for the
11 Department of Justice, and I have to give you my deepest
12 apologies, Judge, for my voice this morning. I have had a
13 little too much air time lately. I have been feeling a
14 little like George Clooney and up in the air, and I think the
15 change in seasons and the time zones is kind of finally
16 getting to me. So I'm going to try to hold on to the voice
17 for the duration of the hearing this morning.

18 What I first would like to address -- we have
19 briefed it for the Court, but in rem jurisdiction for
20 forfeiture is a little bit of an obscure area of the law
21 that, if you haven't encountered before, might be a little
22 confusing to the Court. And the reason that it's very
23 critical here is that any release of the funds that have been
24 seized as a result of your warrant of arrest in rem will be
25 lost to the jurisdiction of this Court, will also be lost to

1 the ability of the government to civilly forfeit in the
2 future.

3 And the reason is that we used 18 USC 984, which is
4 a fungible property statute, which allows us to look at a
5 bank account into which alleged criminal proceeds have been
6 deposited, which is what we have alleged in the Complaint in
7 this case, and go back 12 months, and to the extent that any
8 of those funds are -- were deposited in the last 12 months,
9 that statute allows us to civilly seize for forfeiture an
10 equivalent number. That's what was done here.

11 As you know, Judge, the initial number was somewhere
12 around \$9 million, however that wasn't the balance in the
13 account. There's no intent to go after any additional funds
14 other than the amount that was seized and the amount that's
15 still retained.

16 The 100 thousand that was released last month, for
17 example, is gone from the civil forfeiture. The Melon Bank
18 closed their account, so there is no more money coming into
19 the account into which the alleged criminal fraud proceeds
20 were originally deposited, so the amount that we currently
21 have under seizure is the -- all the amount we will be able
22 to civilly forfeit from AISC unless the company gets indicted
23 and we pursue criminal forfeiture, in which case there is a
24 possibility of a criminal forfeiture money judgment down the
25 road, but that would have to be obtained in the criminal

1 case.

2 So the government really is in a position here of --
3 I'm trying not to touch too many things, too many surfaces in
4 the courtroom. The government is in the position, Your
5 Honor, really, of having to resist any release of funds as
6 requested unless there is a substitute res or a substitute
7 property put up of an equivalent value. We do not intend to
8 seize American International Security Corp. We do concede it
9 is a legitimate business. We do contend that the business
10 itself has not been seized here, and I submit, Your Honor,
11 that the evidence, as elicited during the hearing this
12 morning, will help to define that.

13 Our understanding was that the company was not
14 challenging the actual legitimacy of the seizure, as Your
15 Honor postulated a moment ago. I don't think that they have
16 challenged that the procedures that were used with this Court
17 and the warrant and the statutes that we used were
18 inappropriate. I think -- my understanding is that the
19 challenge is that they can no longer function and that their
20 position is that the 983 (f) provision that grants relief to
21 any parties who have had assets seized as a result of some
22 forfeiture would allow this Court to release some money.

23 First, because the business, itself, has been
24 constructively seized and, secondly, because they can
25 establish that the hardship of that seizure outweighs any

1 risk to us, to the government, that the funds would no longer
2 be there.

3 Quick point on that last measure, risk that the
4 funds would no longer be there. The cases are really
5 consistent that release of currency automatically -- well,
6 generally, in most cases, means that the funds are no longer
7 going to be there. The only reason to have currency released
8 is to spend it. So that would be our position, that it would
9 be a hundred percent risk that these funds would no longer be
10 there.

11 We do -- we have briefed that the burden is on AISC.
12 Our point that no Court has yet accepted a constructive
13 seizure argument that we have made in our brief is not to say
14 that that construct wouldn't necessarily be appropriate under
15 the right facts, and we do grant that the facts -- there are
16 only three cases in which that doctrine has been argued. And
17 in those three the three cases -- the U.S. versus -- well,
18 Southern District of Ohio case of seizure of accounts and the
19 seizure warrants of the Northern District of West Virginia
20 and then the Gilchrist Blaine case that Mr. Brooks referred
21 to.

22 In those cases, we grant the facts were a little
23 different than this case. I believe Mr. Brooks can
24 distinguish based on the facts; however, we will show that
25 this company has not been shut down, that its doors will not

1 close as a result of the seizure, and, again, even if the
2 Court were to find a constructive seizure here, we would
3 maintain that the company has to put up some equivalent res
4 to justify any release of the currency because the currency
5 will be spent and will not be available at the end of the
6 day.

7 Our position is that this is not the right time for
8 the release of funds because they won't be able to establish
9 hardship under 983 (f)(1)(D) -- or (C), sorry, which gives as
10 an example, Judge, the non-functioning of a business, and you
11 just don't have the non-functioning here. You have hardship,
12 but it is not sufficiently substantial to outweigh the risk
13 to the government that the money will be spent. Thank you.

14 THE COURT: Thank you.

15 Mr. Brooks, you may call your witness.

16 MR. BROOKS: Yes. Petitioner calls Ms. Barbara
17 Auterio to the stand.

18 THE COURT: Come up here and be sworn, please, right
19 up here in front of Court.

20 MR. CASTLE: Your Honor, if I could make a request
21 to the Court. My understanding is there is another witness
22 in the courtroom for American International. I would ask
23 that that witness be excluded during the testimony of
24 Ms. Auterio.

25 THE COURT: Are you going to call another witness?

1 MS. AUTERIO: Excuse me?

2 THE COURT: Mr. Brooks, are you going to call
3 another witness?

4 MR. BROOKS: We're not sure we are going to call
5 him, the accountant who does the books for American
6 International. A lot will depend on the examination of
7 Ms. Auterio and the cross examination, and we are -- I have
8 no objection to having him wait outside the courtroom.

9 THE COURT: All right.

10 MR. CASTLE: And then, Your Honor, we, in turn,
11 might have another witness, who is Wendy Spalding, so we
12 would identify her.

13 THE COURT: Both of them can be excluded during this
14 testimony.

15 Right here.

16 BARBARA AUTERIO,
17 the witness hereinbefore named, being first duly cautioned
18 and sworn or affirmed to tell the truth, the whole truth, and
19 nothing but the truth, was examined and testified as follows:

20 THE CLERK: Please state your name and spell it
21 for the record.

22 THE WITNESS: Barbara. B-a-r-b-a-r-a. Jean.
23 J-e-a-n. Auterio. A-u-t-e-r-i-o.

24 THE COURT: You may proceed, Mr. Brooks.

25

1 DIRECT EXAMINATION

2 BY MR. BROOKS

3 Q. Ms. Auterio. Where do you presently reside, ma'am?

4 A. I live in Linfield, Massachusetts.

5 Q. And how long have you lived in Massachusetts, please?

6 A. My entire life, 44 years.

7 Q. And would you please tell the Court your educational
8 background.

9 A. High school diploma. I took some computer courses
10 after high school, but that's it.

11 Q. And where are you currently employed?

12 A. American International Security.

13 Q. And when were you first employed there, please, ma'am?

14 A. 1993.

15 Q. So, for approximately 18 years?

16 A. Yes.

17 Q. And what is your job title at American International
18 Security?

19 A. I don't have a specific title. I tend to use different
20 ones, depending on what I'm doing. Treasurer, director,
21 office manager, operations manager, basically whatever
22 fits.

23 Q. Now, what is the present location of American
24 International Security?

25 A. 28 State Street, Boston, Mass.

1 Q. And prior to being at 28 Street State, where were you
2 located?

3 A. 60 State.

4 Q. And how long have you been located in Boston or
5 American International been located?

6 A. Since 1994.

7 Q. Now, prior to American International Security, there
8 was a prior corporation, was there not?

9 A. Yes.

10 Q. And what was the name of that?

11 A. North American Security Consultants.

12 Q. Now, would you please describe for me what American
13 International Security does?

14 A. We provide security services, guard and patrol,
15 protection detail, and customer service type -- more of a
16 consulting, security consulting.

17 Q. And is that fundamentally what American has done since
18 the inception in 1994?

19 A. Pretty much, yes. We performed investigative work in
20 the early part of our -- and we kind of faded that off.

21 Q. And who is the principal of American International
22 Security, please?

23 A. Michael Taylor.

24 Q. And American International Security is an S
25 Corporation, is it not?

1 A. It's an S Corp., yes.

2 Q. And who is the shareholder in that corporation?

3 A. Michael Taylor.

4 Q. Are there any other shareholders?

5 A. No.

6 Q. And who is the, if you would, the chief executive
7 officer of that corporation?

8 A. Michael Taylor.

9 Q. Now, American International -- are you in charge of the
10 accounting?

11 A. Yes.

12 Q. And did -- was there a company or any individual who
13 helped you set up the accounting?

14 A. Goldberg & Associates.

15 Q. And is there specifically a person at Goldberg &
16 Associates who does the accounting?

17 A. There is now. When we started it was Don Goldberg, who
18 owns the company, and he had an assistant, Harriet, who
19 helped me set up the accounts in my system and, after the
20 first year, Mark Schwarz started handling our taxes.

21 Q. And how long has Mr. Schwarz been effectively the
22 accountant for American International?

23 A. I can't remember what year he started, probably 2004,
24 2005, somewhere around there.

25 Q. Now, if you would, as manager of the Boston office,

1 please go over your specific functions on a daily basis.

2 A. Let's see. I send out invoices. I log payments. I
3 pay -- I do all paying of our employees, our contractors, any
4 and all bills. I take phone calls, give pricing, almost
5 anything.

6 Q. Now, what -- with respect to the accounting function,
7 what role, if any, does Mr. Taylor play?

8 A. None.

9 Q. Now --

10 MR. CASTLE: Well, Your Honor, does that mean --

11 THE WITNESS: No role.

12 MR. CASTLE: Does that mean he doesn't play any at
13 all?

14 THE COURT: You're going to get to cross examine.

15 Q. BY MR. BROOKS: Now, would you please explain for the
16 Court the types of security projects that American
17 International does and where they are located.

18 A. We currently have work at the -- at Logan Airport.
19 It's on the outskirts of the airport. We do security
20 screening for private charters. We also have work that we do
21 steadily in New York at a news media building, protecting the
22 shows. We also do a lot of protection detail for the news
23 media when they fly to foreign countries and they need
24 protection.

25 Q. And what about -- do you do any work at Disney World?

1 A. It's the parent company. It's owned by Disney.

2 Q. Right. But your work is in New York?

3 A. Correct. And sometimes in foreign countries.

4 Q. Now the -- when you say "foreign countries," could you
5 give the Court an understanding where these foreign countries
6 are located?

7 A. Libya, Haiti, Iraq, wherever news is and the media
8 wants to travel, where action is. Cairo.

9 Q. Now, what type of accounting system do you presently
10 have?

11 A. Accounting?

12 Q. Yes.

13 A. We use QuickBooks.

14 Q. And who's in charge of the QuickBooks?

15 A. I am.

16 Q. And the payment to the -- well, let me step back for a
17 moment. In these international contracts --

18 A. Uh-huh.

19 Q. -- is it necessary to pay people overseas?

20 A. Yes.

21 Q. And how do you normally pay people overseas?

22 A. Mostly wire transfers.

23 Q. And did you have a primary bank?

24 A. Melon Trust.

25 Q. And is it still your bank?

1 A. No.

2 Q. And why not?

3 A. After the funds were seized, the bank sent us a letter
4 wishing us no longer to be a client.

5 Q. And did they, as part of that, do anything relative, to
6 your knowledge, to Mr. Taylor?

7 A. Yes. They also sent him a letter asking him to remove
8 his funds from the bank because he was no longer welcome
9 there.

10 Q. Now, would you please explain to the Court how, if at
11 all, that has affected the business of International --
12 American International?

13 A. It basically cut us off because that was our main --
14 that was our basic lifeline to our work, our funds. All of
15 our money was there. I'm not able to even make payments. I
16 have three outstanding bills that I have to pay, which, at
17 the moment, I'm not set up to do wire transfers out of
18 another bank, so all of my banking is basically pretty much
19 stopped. And it just basically tied our hands.

20 Q. Now, are you familiar with the term "credit rating"?

21 A. Yes.

22 Q. And what is presently the credit rating, to your
23 knowledge, of American International?

24 A. I believe we are an A+ credit rating.

25 THE COURT: What is it? Excuse me?

1 THE WITNESS: A+.

2 Q. BY MR. BROOKS: And that was before Melon disassociated
3 themselves with you?

4 A. Correct.

5 Q. Now, how many employees does American International
6 have?

7 A. Approximately 23.

8 Q. And where are they located?

9 A. We have employees in Massachusetts, and we have
10 employees in New York.

11 Q. Now, how many of those are full-time and how many of
12 those are part-time?

13 A. There are five full-time, including myself and
14 Mr. Taylor, and the rest are part-time.

15 Q. Now, what are some of the duties of the part-time
16 employees?

17 A. There's part-time employees that is -- let's see.
18 There's a supervisor at each site, in Boston and in New York.
19 And they have several -- many part-time employees under them.
20 The supervisor fills the shifts with the part-time employees.
21 They -- some do security screening, some just do
22 protection.

23 Q. And that would be at, say, at the airport?

24 A. At the airport or at the building in New York.

25 Q. Now, what are -- do the full-time -- you say there are

1 full-time employees. Would you describe the function,
2 besides your own.

3 A. Lisa Carol, who is my assistant, she logs bills in.
4 She gets the mail. She opens it. She logs invoices in. She
5 has administrative privileges, and she orders office
6 supplies. She takes care of flight arrangements, that type
7 of stuff. And we have another employee, Mick Mathis, who is
8 a supervisor at the airport. And he handles scheduling as
9 well as talking to new possible clients, charter companies at
10 the airport.

11 Q. When you say "charter clients," what do you mean?

12 A. The work we do there, it's -- we do screening for
13 private charters, and there's a lot -- we have 24/7 security
14 at the facility, but quite often -- we've picked up a lot
15 more work over -- just recently for private charters,
16 screening football, baseball, basketball teams flying into
17 the airport and screening them either at the venue or at the
18 airport itself.

19 Q. So like the Boston Bruins and the Boston Celtics?

20 A. Actually we normally screen the teams that are coming
21 in to play against them, the Canadians or ...

22 Q. Now, do you know what the approximate annual payroll of
23 American International is right now?

24 A. For everyone together?

25 Q. Yes.

1 A. Including Michael Taylor?

2 Q. However you want to answer the question.

3 A. I believe it's about 600 thousand not including Michael
4 Taylor. Michael Taylor, he doesn't actually take a paycheck.
5 We just pay withholding for him.

6 Q. Would you describe, please, what you mean you pay
7 withholding for him.

8 A. We just pay tax for him. He gets a zero dollar amount.
9 It's federal tax, FICA, state tax.

10 Q. And has the company elected treatment under Subchapter
11 S?

12 A. Yes.

13 Q. Now, does the amount of clients that American
14 International have vary over the years?

15 A. Yes.

16 Q. And would it be fair to say that you have new clients
17 coming and new clients who leave?

18 A. Absolutely. Yes.

19 Q. And that has been consistent since 1994?

20 A. Yes.

21 Q. And who -- in order to get new clients, what processes
22 does American International follow?

23 A. Normally Michael Taylor basically goes and meets with
24 people. Sometimes people just call in, they are looking for
25 something. We will take the job. Sometimes Mr. Taylor flies

1 out and meets with people and discusses their needs and what
2 we can do and...

3 Q. Has this been a consistent model since 1994?

4 A. Yes.

5 Q. Now, would you -- without mentioning necessarily their
6 names, would you describe some of the companies that you do
7 security work for, besides the news corporations.

8 A. We have done a lot of work for major oil companies,
9 other types of media, as opposed to our regular full-time
10 client, more like the newspaper type. Another security
11 company, as well, also hired us. A lot of private, just
12 private companies that have employees that need to travel and
13 need protection.

14 Q. Did you ever do security work for an airline?

15 A. Yes.

16 Q. And a major airline?

17 A. A major airline.

18 Q. And did you ever do security work for when there was a
19 labor strike?

20 A. Many times.

21 Q. And were they large corporations that you represented?

22 A. Usually, yes.

23 Q. Now, have you had some of your clients for a long
24 period of time?

25 A. Yes.

1 Q. And could you describe for what period, normally?

2 A. September 11, 2001, we started working at the airport
3 and have been there every day since.

4 Q. 2011?

5 A. I'm sorry, 2001. And the building in New York, we have
6 been there -- I don't know what year -- probably at least
7 eight years.

8 Q. Now, are you familiar with the background of Michael
9 Taylor?

10 A. Somewhat.

11 Q. Do you know if Michael Taylor had been in the United
12 States Army?

13 A. Yes.

14 Q. And do you know in what service?

15 A. Special Forces.

16 Q. Now, in these contracts that are overseas, Ms. Auterio,
17 what type of expenses are normally attributable to these
18 types of security?

19 A. First off, we have to fly people there, so we have a
20 lot of air fare, usually hotel, until we can find them
21 residential housing. If it's a long-term, we'll need
22 housing. If it's short-term, it's usually hotel. Meals.
23 Sometimes computers. Office supplies. Almost anything.

24 Q. How about vehicles or armory?

25 A. Vehicles. When we travel to, say, Iraq or Lebanon or

1 Indonesia, we use armored vehicles.

2 Q. Now, in paying for these projects --

3 A. Uh-huh.

4 Q. -- customers, who pays the expenses of the hotel, the
5 air fare, vehicles and assorted other expenses in the
6 beginning of the project?

7 A. I normally pay for everything -- we don't usually
8 invoice for up to 30 days. So, after the first month, I
9 usually send my first invoice. So, after the first month I
10 have already incurred all of those expenses up to that point,
11 and then it's usually anywhere between another 30 to 60 days
12 before I get payment, so I'm usually anywhere between two and
13 three months of expenses and payroll, because I have to pay
14 my guys, before I receive any payment.

15 Q. And is that pretty well standard in most of your
16 contracts?

17 A. Pretty much most. I mean, it takes time for them to
18 get set up because I don't even bill for 30 days. It's
19 standard.

20 Q. Now, are those reimbursed expenses?

21 A. I reimburse -- I am reimbursed for air fare, hotel, but
22 there's a lot of smaller, like Visas and meals -- a lot of
23 things that I cannot -- like I say, insurance costs or
24 anything like that, that I'm not reimbursed for, but I am
25 reimbursed for -- so if I use PSD vehicles or --

1 Q. What do you mean by PSD?

2 A. Additional security, protection security detail with an
3 armored vehicle over there. So, that I'm reimbursed for, as
4 well as my -- the payroll for my guys, but there's still some
5 expenses that, until we build up, we take a loss on.

6 Q. Now, you say PSD. Is that -- are those services or
7 expenses?

8 A. Technically, it's a -- I pay a vendor, so I usually
9 charge an up-charge on that, so I do make profit on it. So
10 it's kind of a service, and I pay another company for that.

11 Q. Now -- so you pay the personnel that supports the
12 overseas projects, correct?

13 A. Correct.

14 Q. Now, is American International -- and putting aside the
15 contract that brings us here today in Afghanistan for the
16 Department of Defense, the army, is normally American
17 International a contractor, prime contractor or a
18 subcontractor?

19 A. I mean, at the airport, we are the contractor. We have
20 been subcontractors before and prime as well, so it basically
21 varies.

22 Q. And is that overseas as well?

23 A. Correct. Yes.

24 Q. So you have been both?

25 A. Yes.

1 Q. Now, would you explain the difference between prime
2 contractor and subcontractor?

3 A. If we were the prime contractor, we would be dealing
4 directly with the client. If we were the subcontract, we
5 would be going through another company.

6 Q. Now, when a contract ends, does American International
7 seek to replace that business?

8 A. Yes.

9 Q. And how is that done?

10 A. Usually Michael Taylor basically goes scouting for new
11 business, looking for opportunities and fielding calls and
12 that sort of...

13 Q. Now, these payrolls, these expenses, are they paid on
14 a certain time or does it vary?

15 A. It kind of varies. For the most part, my guys I pay
16 every two weeks, so if I send a couple of guys over for a
17 year contract somewhere, I pay them every two weeks.
18 Steadily, every two weeks, they get a transfer. If it's a
19 vendor, usually they will bill me anywhere between twice a
20 month or once a month and then I will pay them that.

21 Q. Now, if, for some reason, you were unable to pay that
22 personnel overseas, what would happen?

23 A. They would quit. They would leave.

24 Q. Now, does American International, to your knowledge,
25 own any real estate?

1 A. No.

2 Q. What assets does American International own?

3 A. We really don't have -- other than the furniture in our
4 office, that's pretty much it. A few pictures on the wall.

5 Q. You rent your space, correct?

6 A. We rent our space, yes.

7 Q. Does American International have any brokerage or
8 investment accounts?

9 A. No.

10 Q. Does American International supply a 401-K?

11 A. No.

12 Q. Does American International have any inventory?

13 A. We have body armor, helmets, cameras.

14 Q. And approximate value?

15 A. I mean, our body armor is pretty much only good for
16 a certain amount of years, and we use it for about four -- I
17 think it has a shelf life of about five years until the
18 plates are no longer useful. And it's pennies on the dollar
19 what we spend. Cameras get obsolete.

20 Q. How many bank accounts does American International have
21 besides the former Melon account?

22 A. We have two accounts at Bank of America and one at
23 Citizens, I believe. Yes. We have an account at Citizens
24 still.

25 Q. Now, do you know how much money was seized in the Melon

1 account?

2 A. 5,300,000 and change.

3 Q. And when Melon ended their relationship with American
4 International, was any money returned to American
5 International?

6 A. We had -- we received a check for approximately 30
7 thousand, which I deposited in Bank of America and later used
8 to pay some payroll and bills.

9 MR. BROOKS: Now, I don't know how Your Honor wishes
10 to do this. We have marked, as part of our petition, Exhibit
11 E. It's in the pleadings, and I would mark it as Exhibit 1
12 for purposes of this hearing if Your Honor wishes to mark it
13 that way. And I have given a copy to the government.

14 MR. CASTLE: Well, Your Honor, could we do this just
15 a little differently?

16 THE COURT: Pardon me?

17 MR. CASTLE: Could we do this just a little
18 differently? I would like it marked as Exhibit E. They
19 submitted a number of exhibits through their memorandum in
20 support of their petition, A through K. I think it will just
21 be easier, one for the record, one for the witnesses, if they
22 just follow what they have already have.

23 THE COURT: So this is?

24 MR. BROOKS: Exhibit E. May I approach the witness,
25 Your Honor?

1 THE COURT: Yes. So this is E.

2 Q. BY MR. BROOKS: Now, I show you Exhibit E. Is this a
3 list of bank accounts that American International has
4 presently?

5 A. Yes.

6 Q. And is the -- is this, at the time, an accurate
7 statement of the amounts contained in those bank accounts?

8 A. Yes. It was accurate as of a few days ago, when I
9 prepared it.

10 Q. So, is it less now?

11 A. The Citizens and Bank -- the first Bank of America
12 are -- they are pretty much all pretty close to the same. I
13 believe I may have received one payment on the Bank of
14 America for approximately 8 thousand.

15 Q. Now, why --

16 THE COURT: Are you going to offer it?

17 MR. BROOKS: I'm sorry. I would offer that as
18 evidence, Your Honor.

19 THE COURT: Any objection?

20 MR. CASTLE: No objection, Your Honor.

21 THE COURT: E is received into evidence.

22 (Defendant's Exhibit E received in evidence.)

23 MR. BROOKS: If it please -- strike that.

24 Q. BY MR. BROOKS: Why, Ms. Auterio, did you choose Melon
25 as a bank, if you know?

1 A. Melon, it's a very private -- it's a private bank.
2 It's personal service. I could call the bank at any time,
3 and they would know who I was without even having to say my
4 name. It was just the personal service that I received from
5 them, where at Bank of America, there's always long lines.
6 You're just basically one in an million there, and there's no
7 personal service.

8 Q. Now, do you have that same relationship at any of the
9 banks that are listed on Exhibit E?

10 A. Other than Melon? No. I mean, there are people there
11 I could call, but, for the most part, no. I mean, I call the
12 bank or I go in, and I'm just the same as anyone else. Wait
13 in line.

14 Q. Now, who prepares the American International tax
15 returns?

16 A. Goldberg & Associates.

17 Q. Is that who Mr. Schwartz works for?

18 A. Mark Schwartz, he works for them.

19 Q. Do you meet him in connection with preparation of those
20 tax returns?

21 A. Yes.

22 Q. And what do you give him?

23 A. He normally comes in. He'll sit, and it he'll go over
24 the QuickBooks file. He usually takes a copy. Sometimes
25 he'll check over things. He'll ask questions on different

1 things. Sometimes he'll recategorize stuff, but basically
2 it's the QuickBooks file. And sometimes he'll ask for copies
3 of certain things that are in there and...

4 Q. Now, is Mr. Taylor involved in that process?

5 A. No.

6 Q. How about Lisa Carol?

7 A. Occasionally, because she has all of the bills in her
8 office, like the credit card bills, so he'll ask for credit
9 card statements, so she'll usually just -- basically
10 administrative support, help get the copies he needs or the
11 files he needs.

12 Q. Now, you stated in answer to a prior question
13 approximately \$5.3 million was seized. Were taxes paid on
14 that amount?

15 A. Yes.

16 Q. And let me ask you a question. Who oversees whether
17 all the taxes are paid on all the income?

18 A. After Mark completes our taxes, he sends a copy to me.
19 Any payments that need to be made, I write out the checks and
20 mail them in with whatever stubs I need to.

21 Q. Have you ever been instructed not to invoice where
22 services were rendered?

23 MR. CASTLE: Objection, Your Honor. I'm not sure of
24 the relevancy --

25 THE WITNESS: No.

1 MR. CASTLE: -- in this hearing related to the issue
2 of hardship. How is that relevant?

3 MR. BROOKS: I'll withdraw the question.

4 Q. BY MR. BROOKS: Now, did Melon Bank provide you an
5 electronic record of the seizure?

6 A. Yes.

7 Q. Have you replaced the functions of Melon Bank presently
8 with your new banker?

9 A. No. I have applied to be able to do wire transfers,
10 but I'm waiting for that process to be complete.

11 Q. Now, you have a line of credit, do you not?

12 A. We do.

13 Q. And with whom is that?

14 A. Currently we have a line of credit with Bank of
15 America.

16 Q. Now, do you pay Mr. Taylor's taxes?

17 A. If there is a payment that needs to be paid, yes. I
18 would print that and write that as well.

19 Q. Has there been, to your knowledge, a time when
20 Mr. Taylor has gotten a refund?

21 A. Yes.

22 Q. What did he do with the refund, to your knowledge?

23 A. He deposits it in the American International account.

24 Q. Now, over a period, say a period of, say, 2008 to --
25 through 2010, what types of balances do you keep in the Melon

1 check -- in the former Melon checking account?

2 A. From 2008 on, basically all our funds that come in go
3 directly to Melon. It varied from anywhere between 2 and 5
4 million, I would guess.

5 Q. Now, you pay some of Mr. Taylor's personal expenses; is
6 that correct?

7 A. Yes.

8 Q. And would you explain to the Court what those types of
9 expenses are?

10 A. We pay his son's college. We're an S Corp., so we pay
11 his bills. He doesn't actually take a paycheck. Sometimes
12 credit card bills, a lot of times when he travels, things
13 like that.

14 Q. Now, are you aware of expenditures by Mr. Taylor to
15 schools?

16 A. Yes.

17 Q. And would you explain what those were?

18 A. He donates a lot to the schools. He basically has paid
19 for football fields, just different expenses. Anything the
20 schools need, he usually will pay for.

21 Q. Now, are you personally aware of some of the assets
22 that Mr. Taylor has?

23 A. Like his home?

24 Q. Yes.

25 A. Yes.

1 Q. And where is that located?

2 A. He lives in Harvard, Mass.

3 Q. And does he have a vacation home?

4 A. Yes.

5 Q. And where is that located?

6 A. In Vermont.

7 Q. Other than those homes, do you know of any other assets
8 that Mr. Taylor has?

9 A. I don't believe so. A vehicle. I mean, cars.

10 Q. Other than cars?

11 A. I don't believe he has any other.

12 Q. Are you familiar with Mr. Taylor's personal bank
13 account?

14 A. Yes -- well, I used to be.

15 Q. And how much money do you know that Mr. Taylor had in
16 that personal bank account?

17 A. I would normally check his balance at Mellon, and he
18 would normally keep anywhere between 4 and 8 thousand, 4 and,
19 like, \$12 thousand. If I noticed that it was getting low, I
20 would normally make a deposit to keep a balance in that.

21 Q. Do you know of any savings accounts Mr. Taylor has?

22 A. No.

23 Q. Any brokerage accounts?

24 A. Not that I know of.

25 Q. Now, subsequent to the seizure of the \$5.3 million,

1 what impact did that have on American International?

2 A. Basically cut our lifeline. Melon was where I -- where
3 I basically did everything from, and I no longer have that
4 resource.

5 Q. What about the loss of the money?

6 A. What do you mean, what about it?

7 Q. In other words, what impact did that have?

8 A. It basically put us at a standstill. I can't start
9 anything new because I don't have the money to front it. It
10 just basically put us at a standstill.

11 Q. That was your capital account, was it not?

12 A. Correct.

13 Q. Do you have any other -- other than the bank accounts
14 shown on Exhibit E, do you have any other funds?

15 A. No.

16 Q. Now, would you explain the importance of not having
17 funds available to the Court, please.

18 A. If I don't have the funds available for us to start a
19 new project and get it up and running, I won't be able to
20 support that. Normally, there's a lot of expenses, just to
21 get people places, to -- the air fare to pay. I have to pay
22 them. If I don't get paid for 60 to 90 days, several months'
23 worth of payroll and expenses.

24 Q. Now, in connection with this hearing, did you prepare a
25 monthly budget for American International?

1 A. Yes.

2 Q. All right. I would show the witness what has been in
3 our petition marked Exhibit F.

4 THE COURT: F?

5 MR. BROOKS: F.

6 Q. BY MR. BROOKS: Would you identify that document
7 please, Ms. Auterio?

8 A. It's a monthly budget.

9 Q. And what does that represent?

10 A. Basically this is pretty much what we pay on a monthly
11 basis. Some of them are actual expenses, like our rent.
12 Some of them are kind of like a combined, what we pay for a
13 year divided by the 12 months, because sometimes they vary.

14 Q. And I would direct your attention to the payroll. You
15 see the category Payroll? I think it's the --

16 A. Yes.

17 Q. -- fifth category in. And that has number of \$83,333.
18 Would you please tell the Court what that represents.

19 A. That's payroll for our Boston and New York jobs as well
20 as withholding for Michael Taylor.

21 Q. But not income for Michael Taylor?

22 A. No.

23 Q. Now, you'll see down towards the bottom of that page
24 something called S Corp. Distributions?

25 A. Correct.

1 Q. And what does that represent?

2 A. That represents an approximate amount of the bills I
3 pay for Michael Taylor in a month.

4 Q. And these numbers, because I noticed they are sort of
5 round numbers, these are not exact numbers, are they?

6 A. No, not exact. I mean, the rent is exact. The parking
7 is exact. The health insurance is exact, but the others, I
8 kind of had to give an approximate because sometimes they do
9 vary, like telephone is never going to be the same every
10 month. So I added up what it had cost and divided it by
11 12.

12 Q. And that would be the same for air fare and
13 transportation costs?

14 A. Yes. Air fare is also an approximate because,
15 depending on how many guys I have to fly in any given month,
16 it could go up, it could go down.

17 Q. And that total figure of 206,617 is your best estimate
18 of a budget for today?

19 A. Yes.

20 Q. Would that number change if you got any project?

21 A. Yes.

22 Q. And in what way?

23 A. It would -- I would have increased expenses because I
24 would have to, say, pay to field an operation, to fly guys
25 out there, to pay vendors, PSD, housing.

1 Q. Now, if there are new -- right now, to your personal
2 knowledge, are there prospective clients out there?

3 A. Yes.

4 Q. And would you describe those prospective clients
5 for the Court.

6 A. We have one that is supposed to start in mid-October,
7 within the next couple of weeks. It's a major oil company
8 that is planning to go to Iraq to drill for oil, and they
9 want us to provide their security.

10 Q. And are there other prospective clients?

11 A. Yes.

12 Q. And could you describe those.

13 A. We have another company who has two possible
14 operations. One would be in Congo and one in Nigeria, all of
15 similar nature. We basically would be going over with the
16 company, setting up, setting up their security and...

17 Q. So that the expenses listed in Exhibit F would go up
18 dramatically, would they not?

19 A. Correct.

20 MR. CASTLE: Objection, Your Honor. I mean, that
21 calls for a conclusion. Let her testify what the effect
22 would be, versus Mr. Brooks. It's a leading question, too,
23 so I object.

24 THE COURT: Try not to lead her too much.

25 MR. BROOKS: All right. I'll rephrase the question.

1 Q. BY MR. BROOKS: How would the new contracts affect the
2 expenses in Exhibit F?

3 A. They would increase because we would have more
4 expenses.

5 Q. Would it be a large increase, a small increase?

6 A. It would be a large increase. Besides air fare, hotel,
7 vendors, I would have payroll. Normally, in a foreign
8 country, I would have to have insurance. I would have
9 insurance costs. I would have to -- depending on where they
10 were, sometimes they need to get SOS, which is basically safe
11 flight for my guys out of there in case something -- an
12 emergency would happen, as well as health insurance if they
13 are going to be there for anywhere like a year.

14 Q. Now, also in Exhibit F, you have subcontractor
15 expenses, do you not?

16 A. I do.

17 Q. And how would that be impacted by new contracts?

18 A. If -- the subcontractor expenses that I have listed
19 here, this is for more of the normal monthly that we have, so
20 if I were to get the job and when that starts in Iraq, that
21 would increase because I would have more guys that I would be
22 paying.

23 These here expenses are what I normally spend in a
24 month for the news media and to pay my guys. So, when the
25 news media travels, this is what that air fare is, and when

1 the -- the payroll for the contractors is what I would pay
2 for them. So, if I had additional contractors to my regular
3 monthly, obviously that would go up.

4 Q. And a lot of those costs are what we would refer to as
5 front-loaded, are they not?

6 A. Yes.

7 Q. Do you presently have the capacity, with your banking,
8 to entertain new contracts?

9 A. If I were to take out a loan.

10 Q. No. I'm just saying what you have in the bank.

11 A. We have no funds. No. I would probably max out my
12 credit card, and I wouldn't be able to pay my guys with what
13 we have in the bank, no, and we wouldn't be paid for probably
14 90 days at best.

15 MR. BROOKS: I would offer Exhibit F into
16 evidence.

17 MR. CASTLE: No objection.

18 THE COURT: F is received.

19 (Defendant's Exhibit F received in evidence.)

20 MR. BROOKS: If it please the Court, I would show
21 the witness Exhibit G.

22 THE COURT: Sure.

23 MR. BROOKS: Attached to our petition. I apologize
24 for the small print, Your Honor.

25 THE COURT: All right. 20/20 with glasses.

1 Q. BY MR. BROOKS: Would you identify Exhibit G please,
2 ma'am?

3 A. Exhibit G is basically a list of our current clients
4 and some prospective clients; one that is supposed to start
5 within the next couple of weeks, and another that's supposed
6 to start within several months later.

7 Q. And who prepared this document?

8 A. I did.

9 Q. And who provided the financial data for this document?

10 A. I did.

11 Q. And there are acronyms, letters, albeit very small.
12 Those represent both current clients and prospective clients?

13 A. Correct.

14 Q. Now, I believe Exhibit G shows revenues from current
15 clients beginning on 9/11 and for the four months beginning
16 into 9 -- of September of 2012; is that correct?

17 A. Yes.

18 THE COURT: Say that again.

19 Q. I'm sorry. There are revenues that start on 9/1 of
20 '11, and they go to 9/1 of '12. Would you explain what those
21 are and how you broke them down?

22 A. So, the revenues for 9/1, through basically a year of
23 what we would receive in that year from those clients. And
24 the revenues from the next column, from September to
25 December, is an approximate of how much we would receive in

1 that time period.

2 Q. Now, when you say "prospective clients," that means
3 there are no -- are there any contracts for those clients
4 presently?

5 A. Not yet.

6 Q. How certain, if you would, if you know?

7 MR. CASTLE: Objection, Your Honor. That's going to
8 call for speculation.

9 MR. BROOKS: I haven't finished the question.

10 THE COURT: What is the question?

11 MR. CASTLE: Objection to her speculating as to
12 whether they are going to come to pass. The point is that
13 they are not in place right now.

14 THE COURT: Well, it's clear that they are not in
15 place right now. We are entitled to a best judgment about
16 what she thinks might happen. Go ahead.

17 MR. BROOKS: Thank you, Your Honor.

18 Q. BY MR. BROOKS: When you say "prospective clients,"
19 what do you mean by that, ma'am?

20 A. People that we are currently talking to regarding their
21 services. The first prospective client, DE, they were just
22 awaiting their license, and I do know for a fact that they
23 have just received their license, and we are hoping, within
24 the next couple of weeks, to go to Iraq with them.

25 Q. Based on past experience, when you have prospective

1 clients, how often do they become real clients?

2 A. Quite often.

3 Q. If the list of prospective clients of which have start
4 dates of October -- October 11 through -- into March of 2012,
5 would you be able to support, with your present cash flow,
6 the startup costs of those clients?

7 MR. CASTLE: Objection. Leading.

8 THE COURT: Overruled.

9 THE WITNESS: No.

10 Q. BY MR. BROOKS: Would you have been able to pay those
11 startup costs had the money not been seized from the Melon
12 Bank?

13 A. Absolutely. Yes.

14 Q. Would you have used that bank account?

15 A. Yes.

16 Q. Has that been your past practice?

17 A. That's basically the whole way we provide -- that's the
18 way we do business. We use the money that we have to gain
19 new clients because there's always a startup cost, and,
20 without it, it's difficult to start.

21 Q. Now, would you please go over, if you would, the
22 current clients and the columns under revenues for the
23 current clients that exist.

24 A. Well, we have a number of clients. Some are obviously
25 better than others. The news. That's basically we provide

1 security services when they fly to foreign countries to do
2 reports. That's an approximate. It's no guarantee monthly
3 on that particular one. If something bad happens, they are
4 going to fly to Libya. If nothing happens in any given
5 month, we may not fly anywhere with them. So it's more of an
6 estimated, what I've done from the beginning of the year
7 until now, divided by the months.

8 Q. And do they call on a regular basis for services?

9 A. Yes. Whenever there's tragedy and they need to report
10 on it.

11 Q. And you need to be geared up to support that, do you
12 not?

13 A. We pretty much need to be ready to have guys fly out
14 the next day.

15 Q. And how do you economically support that?

16 A. Credit card. Normally the air fare is put on the
17 credit card and then we use our account to pay for it.

18 Q. So you would have used the Melon account, would you
19 not?

20 A. Yes. Some of the other customers are smaller
21 customers. That is an approximate of -- some of them are
22 charter companies that we have just recently gained contracts
23 with, and we will be providing services for them, for their
24 teams when they fly in. The MPI Is a customer that we had a
25 contract and a job -- we still have an open contract with

1 them, however, currently, there are no job orders. They work
2 off job orders, and we don't have a job order for any
3 services for them for the rest of the year. So I ended them.

4 The -- it says SFS, 37 thousand. That is our
5 current airport job. That's our monthly billing, regular
6 monthly billing, and the WABC at the bottom, 29,946, that's
7 our normal monthly billing as well.

8 Q. Now, in -- from 1994 to 2011, the revenues of American
9 International, have they varied year-to-year?

10 A. Absolutely. Yes.

11 Q. And so it would be difficult to forecast with any
12 accuracy exactly what's coming in any particular year. Would
13 that be a fair statement?

14 A. Yes.

15 Q. And do you know -- for example, going before 2007, do
16 you know the approximate gross revenues in 2004, 2005 and
17 2006?

18 A. Probably between 2 and 7 million, different years.

19 Q. And do you know if you had gross revenues of \$11
20 million in 2005?

21 MR. CASTLE: Objection.

22 THE COURT: Sustained.

23 Q. BY MR. BROOKS: I'll come to that question. I'll
24 withdraw it. Now, these projects that you have, are these
25 the employees -- are these W-2 employees or 1099 employees?

1 A. The top one, the news media, we use 1099's to pay for
2 those. And the others are all pretty much on our payroll.

3 Q. Now, the prospective clients, if you have international
4 projects, are those 1099 employees or W-2 employees?

5 A. It could be either. Normally the guys prefer to be
6 1099, and them I would normally pay by wire transfer.

7 Q. And how do you pay the domestic people who are
8 1099's?

9 A. I would write them a check.

10 Q. And that check would have been drawn off the Melon
11 account?

12 A. It would have.

13 MR. BROOKS: Your Honor, I would be addressing
14 Exhibit I.

15 THE COURT: Are you going to offer G?

16 MR. BROOKS: I'm sorry. I will offer G, Your Honor.

17 MR. CASTLE: No objection, Your Honor.

18 THE COURT: G is received.

19 (Defendant's Exhibit G received in evidence.)

20 Q. BY MR. BROOKS: This is I. Now, Ms. Auterio, I show
21 you Exhibit I and I ask you, can you identify this document?

22 A. This is basically for any new startup. The previous
23 client -- I mean, the prospective client DE that is supposed
24 to start up mid-October, this would basically be what I
25 would be paying for to start up this job.

1 Q. And would you explain why the columns show -- it says
2 monthly and it shows annually, yet the numbers are all in the
3 middle.

4 A. Well, the way it just kind of shifted a little. The
5 monthly, which is a little further to the right, is an
6 approximate cost of what it would cost me, say, for lodging,
7 in-country transportation, which is PSD and armored vehicles.
8 Air fare is normally -- the guys, the way they work, it's 90
9 days on, two weeks off. So they would have air fare four
10 times a year. So, if I had four guys, they would vary at the
11 time they left, so all four guys wouldn't leave at the same
12 time, obviously, but every month or so after the first few,
13 somebody would be flying home for a vacation.

14 Q. Now, what is the purpose of this document?

15 A. Basically just to get an idea of what it would cost to
16 start up any new project or any of these new projects.

17 Q. So, the \$159 thousand, which is on Exhibit I, does that
18 represent the total of the startup costs approximately?

19 A. No, because on this, there is not -- the guys would be
20 paid as well. They would need to be paid every two weeks, so
21 their salary is actually not on here.

22 Q. So the number of 159 is too low?

23 A. It's actually -- would be higher because their salary
24 is not on here. I just realized that.

25 Q. And how much -- of course you wouldn't know. It

1 depends on the project?

2 A. It depends on the project. If I were paying the guy
3 150 thousand a year, he would probably -- let's see, because
4 I did it with someone on this sheet. If I was paying him
5 150, it would be monthly. I'm not really good at adding up
6 under stress, so I would be paying probably 16 thousand or so
7 in salary.

8 Q. 16 thousand?

9 A. I really would have to figure out -- 150 divided by
10 26.

11 Q. So, the 159 thousand represents a lower figure than
12 actual expenses that you have total?

13 A. Correct.

14 Q. And this money was normally money that came out of the
15 Mellon Bank?

16 A. Yes.

17 Q. Now, are there clients, prospective clients, where the
18 number would be higher than the numbers shown on Exhibit I?

19 A. Basically all of them would because I just realized
20 that I left off the salary for the guys, and depending on
21 what we need, anything could change. If we need more or less
22 cars, if we need more men, it would definitely increase.

23 Q. Well, directing your attention to the -- to the
24 contract with the Department of Army and Defense in
25 Afghanistan, would you explain, please, in that particular

1 project what the expense load was?

2 A. The expenses were tremendous. It was much more than we
3 expected when we started. The air fare -- we had to get --
4 usually, when there was a need for some position, I had to
5 find someone immediately and fly them right away, which
6 basically meant the air fare was usually pretty high. We had
7 a lot of other expenses which we didn't realize up front that
8 were going to be there, like interpreters.

9 There were vehicles. Each site needed a vehicle, so
10 we needed vehicles for each of the sites. There was just
11 office supplies, printers, you know, that kind of stuff.

12 MR. BROOKS: Well, first, Your Honor, I would offer
13 Exhibit I into evidence, please.

14 MR. CASTLE: No objection.

15 THE COURT: I is received.

16 (Defendant's Exhibit I received in evidence.)

17 MR. BROOKS: Approach the witness, Your Honor?

18 THE COURT: Sure.

19 Q. BY MR. BROOKS: Now, do you recognize Exhibit K,
20 Ms. Auterio?

21 A. Yes.

22 Q. And what do those represent?

23 A. Our tax returns.

24 Q. And are you familiar with those tax returns?

25 A. Yes.

1 Q. Did you help prepare those tax returns?

2 A. Basically I gave Mark the QuickBooks file, the
3 information, and he prepares them.

4 Q. And the numbers on those tax returns, were those
5 supplied by you?

6 A. Correct. Yes.

7 Q. And, if you would -- and has American International
8 filed tax returns each and every year that you've been with
9 the company?

10 A. Yes. We normally file an extension, but they are
11 filed. They have been filed every single year.

12 Q. Now, could you please, for the Court, look in Exhibit K
13 and describe the gross receipts for 2004?

14 A. 2,637,861.

15 Q. And for 2005?

16 A. 11,764,611.

17 Q. And 2006?

18 A. 5,231,939.

19 Q. Now, were the tax returns and the information on the
20 tax returns found in Exhibit K, were those during or before
21 the Afghan contract?

22 A. Before.

23 Q. So, the gross receipts had nothing to do with
24 Afghanistan?

25 A. Correct.

1 Q. And the revenues on those tax returns, do they
2 represent revenues from the clients you previously described?

3 A. Yes. Correct.

4 Q. And why the difference between 2 million one year and
5 11 million another year? Do you know?

6 A. Basically the way the business is, is we have good
7 years, better years, bad years. Obviously, in 2004, we
8 didn't have much business. In 2005, we had a major airline
9 that went on strike. We did a lot of work for them. In
10 2006, it went down because we actually lost a little over a
11 million dollars because they filed bankruptcy. So, 2006
12 should have actually been higher.

13 Q. Now, do you know when American International entered
14 into a government contract in Afghanistan?

15 A. It was July of 2007.

16 Q. Okay. And when did the contract in Afghanistan end?

17 A. December, 2010.

18 Q. Now, would you please describe for the Court what you
19 did when you -- as far as expenses you did for Afghanistan?

20 A. For expenses? You mean like the expenses we had?

21 Q. Yes.

22 A. We had air fare, a lot of air fare. We had vehicles.
23 We had interpreter fees, as well as office supplies or
24 anything else I was billed for.

25 Q. And in 2007, did you know the approximate -- was it a

1 pilot program, if you know?

2 A. Yes. It was originally started with three guys. We
3 weren't sure how long it was going to last or, you know,
4 anything, but we gave it a shot. It was our first venture in
5 that type of work.

6 Q. What do you mean by your first venture?

7 A. We had never done -- our work has mostly been security,
8 so this was a little different, where it was more of kind of
9 like a training program, which was not something we had done
10 previously, but we are always up for new opportunities.

11 Q. And the -- you're familiar with profits, correct?

12 A. Yes.

13 Q. Was -- in the beginning of that contract, in 2007, was
14 that a profitable pilot program contract?

15 A. No.

16 Q. And why not?

17 A. When we started, we flew all our guys over. We weren't
18 quite -- we didn't realize it was going to be the interpreter
19 fees. We didn't realize we were going to have the vehicles
20 over there. I hadn't actually received payment until
21 November for when we started. We started in August. The
22 first payment I received was in November, so we were
23 basically borrowing on every credit line we could get just to
24 pay our guys to keep them there long enough to receive
25 payment.

1 Q. Now, in 2007, you had the Melon Bank account, did you
2 not?

3 A. I did.

4 Q. Did you draw against the Melon Bank account to pay
5 those expenses?

6 A. We used everything that we had in there, and we had
7 actually had approximately 200 thousand or so in Bank of
8 America, which I had to take out and put into Melon so that I
9 could pay my guys. And then we also had to borrow from both
10 Citizens Bank and Bank of America to continue to pay our guys
11 until we were finally paid.

12 MR. BROOKS: All right, Your Honor, I would offer,
13 by the way, Exhibit K into evidence, please.

14 MR. CASTLE: No objection.

15 THE COURT: K is received into evidence.

16 (Defendant's Exhibit K received in evidence.)

17 Q. BY MR. BROOKS: Now, that -- would you -- in your mind,
18 was the contract in Afghanistan profitable in 2007?

19 A. No. We were in the hole in 2007.

20 Q. How about 2008?

21 A. 2008, we were pretty much just barely, if 10 percent.
22 It was, you know, still just -- we were still trying to make
23 up for the losses. We didn't anticipate as much of the
24 expenses that we had when we started.

25 Q. Now, normally, in international contract security, what

1 is your normal profit margin, if you have one?

2 A. 50 percent.

3 Q. And do you have an idea of what your profit margin was
4 in the Afghanistan project from 2007 through 2010?

5 A. 2007, I would say we lost. 2008, maybe 10 percent.

6 2009, we started making a little more profit in 2009. I
7 actually started lowering some of -- we were originally
8 paying the guys between 525 -- some actually got 600 a day.
9 Some were 450 a day. And then I started -- from a certain
10 point in July of 2009, I started hiring all new hires at a
11 standard 400 a day because the profit wasn't there, and we
12 were killing ourselves, and it wasn't really worth it.

13 Q. Overall, what would you say the profit margin is
14 for the four years?

15 A. Well, '07, I say we lost. 10 percent in '08, and maybe
16 20 percent in '09 and '10.

17 Q. Now, during the period of 2007 through 2010, did
18 you also service other clients?

19 A. Oh, yes.

20 Q. So you had your regular run of clients during that
21 period of time?

22 A. In 2007, if it wasn't for our other clients, we never
23 would have made it to be able to pay our guys because we were
24 using the profits from the oil company. Because we had a
25 large job in Indonesia, we were using the profits of those to

1 pay the guys in Afghanistan, and I still had to borrow.

2 Q. Now, the client base that -- strike that. How
3 important is the \$5.3 million to American International
4 Security?

5 A. Well, without -- without it, basically, there's nothing
6 new we can do. We are basically at a standstill. The
7 customers that we have now pay the salaries for our
8 employees, but they don't pay a lot of the overhead, like the
9 insurance, our rent, and there's a lot of other expenses that
10 will pretty much be at a loss. We rely on other work coming
11 in to basically carry the rest of it. I mean, we have steady
12 clients but, you know, they pay the salaries, but it doesn't
13 pay everything.

14 Q. Thank you. One second, please. Now, you say you have
15 a line of credit with Bank of America; is that correct?

16 A. At the present time, yes.

17 Q. What do you mean "at the present time"?

18 A. Bank people talk, and I assume that it's only a matter
19 of time.

20 MR. CASTLE: Objection, Your Honor, to this whole
21 line of questioning about bank people talking to other bank
22 people. I object to that.

23 THE COURT: That's sustained.

24 Q. BY MR. BROOKS: Without that line of credit, and
25 without the money being returned, what impact would that have

1 on American International?

2 A. We'd go into debt.

3 Q. And do you have any other facilities to borrow money?

4 A. No.

5 MR. BROOKS: I have no further questions, Your
6 Honor.

7 THE COURT: Thank you, Mr. Brooks. You may cross
8 examine, Mr. Castle.

9 MR. CASTLE: Your Honor, is there any way to take a
10 five minute break?

11 THE COURT: Let's take ten.

12 MR. CASTLE: Thank you.

13 (Short break.)

14 THE COURT: You may cross examine, Mr. Castle.

15 MR. CASTLE: Thank you, Your Honor.

16 CROSS EXAMINATION

17 BY MR. CASTLE:

18 Q. Ms. Auterio, when it comes to American International,
19 as it stands right now, the doors are still open. Isn't that
20 right?

21 A. Yes.

22 Q. And International -- American International remains in
23 control of all the money it has received since September 8 of
24 2011?

25 A. We received about 30-something thousand from Melon in a

1 check, which I deposited in Bank of America. We paid some
2 bills, and I've received 8 thousand plus from one of my
3 regular customers.

4 Q. The hundred thousand dollars that you got from the
5 government, what happened to that money?

6 A. We paid our payroll. We paid our rent, insurance,
7 basically all the bills that were outstanding in
8 QuickBooks.

9 Q. What account did that go into?

10 A. Bank of America.

11 Q. So, to be correct, you can say that what you've done is
12 you've shifted your business to Bank of America?

13 A. We had no choice. Yes.

14 Q. The Bank of America account, that's one you've had for
15 some time?

16 A. Yes.

17 Q. You have a good working relationship with Bank of
18 America?

19 A. It's not the same. I mean, there's no personal
20 service. I mean, it's an account we had. It's open. So,
21 from default, we basically had no choice but to use it.

22 Q. Melon Bank is not the only bank in Boston, correct?

23 A. Melon Bank is not, no, but it's the most --

24 Q. There's other banks in Boston?

25 A. Absolutely.

1 Q. And when it comes to Melon Bank, really it is one you
2 liked because you had a personal relationship with them,
3 correct?

4 A. I liked the personal relationship, yes.

5 Q. It doesn't mean you couldn't develop that personal
6 relationship with another bank, like Bank of America?

7 A. No, I couldn't. They don't have that type of service.
8 I've had my account at Bank of America, and the branch
9 manager had tried to convince me to switch over before, and I
10 told her that they didn't have the type of personal service
11 that I got from Melon, and she agreed that they did not have
12 that.

13 Q. When you say "personal service," tell me what you mean.
14 They are not as friendly?

15 A. They are not as friendly. For the most part, I sent a
16 lot of wires, so the normal procedure was, I would fax a wire
17 over to Melon. They would call me, confirm it and send it.
18 It was very easy, and if I would call at any time the bank,
19 they always knew who I was. I didn't have to say, "This is
20 Barbara from American International." I would say hello, you
21 know, and they knew immediately who I was. I would go in.
22 They always knew me. There was never a line. It's a
23 different type of bank. It's more personal.

24 And, with Bank of America, they don't -- you can't
25 just fax a wire. Right now, I'm just waiting to get set up

1 to at least be able to do wires. I'm not even sure of their
2 process. But, with Melon, it was very easy and very -- I
3 could call them and ask for anything and if a check was
4 cleared. They would do anything.

5 Q. From your perspective, then, what you're saying is
6 Melon Bank made your job easier?

7 A. Yes.

8 Q. Working with Bank of America or Citizens Bank or
9 another bank, it doesn't mean that having -- or using them as
10 a bank would make it impossible for you to perform your
11 duties, it wouldn't be as easy?

12 A. It wouldn't be as easy, but Melon didn't charge me for
13 wires, where Bank of America will.

14 Q. Ever have a line of credit with Melon Bank?

15 A. No.

16 Q. Why not?

17 A. Melon is a trust. It's not a commercial type -- they
18 don't have that.

19 Q. The line of credit that you have with Bank of America,
20 how much is that line of credit?

21 A. 1.2 million.

22 Q. In fact, that line of credit is not in the name of
23 American International, is it?

24 A. Honestly, I'm not sure. It may be under Michael
25 Taylor, and it might have both names on it. I would have to

1 look at the paperwork again.

2 Q. If I were to tell you it was in the name of Michael
3 Taylor, you would have no reason to disagree with me, would
4 you?

5 A. No. He probably guaranteed it or something.

6 Q. Since the government seized the 5.3 million from
7 American International, American International has remained
8 in control of its accounts receivables, correct?

9 A. Correct.

10 Q. In fact, American International provided some services
11 to a news organization in Libya?

12 A. Correct.

13 Q. And, as a result of that, you are owed at least -- have
14 been recently or now are owed a hundred thousand dollars?

15 A. Correct.

16 Q. Has that money been paid?

17 A. No. Not yet.

18 Q. When is that money going to be paid?

19 A. I mean, I can't guarantee when they are going send it.
20 The terms are 30 days, but it's when they pay it, basically,
21 when I receive payment, and it will be via ACH, directly into
22 Bank of America.

23 Q. The hundred thousand dollars that you're owed -- and
24 when I say "you," I apologize, I mean American
25 International -- it's not past due, right?

1 A. It may technically be. I believe I sent it -- you
2 know, I don't remember the exact date that I sent it, but
3 they are a steady client, so if it's a little over, I mean,
4 usually if it goes too far, I will send another e-mail to the
5 person and, could you check on this for me? But it may be a
6 little past due.

7 Q. So, what you just said, they are a regular customer,
8 correct?

9 A. Yes.

10 Q. And, as a regular customer, they have regularly paid
11 their bills?

12 A. They have regularly paid their bills.

13 Q. And they paid their bills regularly on time?

14 A. Or close to. I mean, sometimes it's a little late,
15 but...

16 Q. When you say "a little late," how many days are we
17 talking about?

18 A. I'm talking -- I mean, there's been times it's been a
19 couple months late. I mean, sometimes it's on time, within
20 30 days. Sometimes I've had -- actually had a few that were
21 a couple months late.

22 Q. And so, in fact, this payment could be in your American
23 International account as we're speaking right now?

24 A. No, because I receive e-mails with the remittance, and
25 I checked my e-mails this morning because I had a remittance

1 from them to see what it was, and the amount was 8 thousand
2 and change. So, I was checking to see if that actually came
3 in.

4 Q. And you're checking because this \$100 thousand, you're
5 anticipating receiving it pretty darn soon here?

6 A. I'm hoping, yes.

7 Q. Okay. Since the seizure of the \$5.3 million, American
8 International has maintained its relationship with its
9 current customers?

10 A. Yes.

11 Q. In fact, as you have testified, American International
12 has also sought out new customers?

13 A. We had been seeking out new customers, obviously, prior
14 to this.

15 Q. But the fact that the 5.3 million was seized from
16 American International hasn't affected that in any way,
17 correct?

18 A. At the moment, no one knows, so, no.

19 Q. Do you have any evidence whatsoever that, because the
20 \$5.3 million was seized, it will affect your relationship
21 with these prospective clients? Yes or no?

22 A. No.

23 Q. You remain in control of the business location,
24 correct?

25 A. Yes.

1 Q. Your office equipment?

2 A. Our office equipment is leased, but yes.

3 Q. Your office supplies?

4 A. Yes.

5 Q. You remain in control of the ability to borrow \$1.2
6 million from Bank of America?

7 A. Yes.

8 Q. In fact, as you've stated, American International has
9 an A+ rating?

10 A. Yes.

11 Q. Has any efforts been made by American International to
12 see if they could get more credit?

13 A. Not at the moment, because I would have to provide a
14 balance sheet, and with no balance, I mean, they would laugh
15 at me.

16 Q. How do you know that?

17 A. I mean --

18 Q. Have you had that experience before? Have you walked
19 in --

20 THE COURT: Wait just a second. You asked a
21 question. She started to answer it. You interrupted her.
22 So let her answer the first question you asked before you ask
23 another one.

24 THE WITNESS: Thank you.

25 THE COURT: Do You have in mind the first question

1 he asked?

2 THE WITNESS: Yes.

3 THE COURT: All right. Go ahead and answer that
4 question.

5 THE WITNESS: When we had accounts at -- when we had
6 a loan through citizens at the very beginning of the
7 Department of Army contract, 2007, we had a
8 hundred-thousand-dollar credit. We didn't have much of a
9 balance. We asked for an increase in that credit. They
10 asked for a balance sheet. They denied us. We didn't have
11 enough Monday, so they weren't going to give us anymore
12 credit, so I know that, without a balance, I'm not going to
13 get credit. And, luckily, I -- we knew my Bank of America
14 paperwork had supplied the balance sheet when I actually had
15 money or they would not have.

16 Q. BY MR. CASTLE: So, what you know is, at least when it
17 comes to Citizens bank?

18 A. Well, I mean --

19 Q. Yes or no?

20 A. Yes.

21 THE COURT: You don't control the witness' answers.

22 If you need to explain an answer, you explain it.
23 I've never permitted somebody to bludgeon somebody into a yes
24 or no answer. You can answer the question, and you can
25 explain it.

1 MR. CASTLE: Well, Your Honor my --

2 THE COURT: So, what's the question?

3 MR. CASTLE: Well, my questions are, I believe,
4 structured for either a yes or no answer

5 THE COURT: Well, very few questions are properly
6 answered yes or no, in my view, so however you structure
7 them, I'm going to let her answer, and if she wants to
8 explain them, I'm going to let her explain them, just as I
9 would if your opponent were trying to do the same thing.

10 MR. CASTLE: Well, my question was, her experience,
11 when it came to the A+ rating and not having a balance sheet,
12 has been limited to Citizens Bank?

13 THE WITNESS: Could you ask that again?

14 Q. BY MR. CASTLE: The experience that you've had, without
15 having an adequate business -- or excuse me -- an adequate
16 balance sheet where you've gone to obtain a loan, has been
17 limited to Citizens bank?

18 A. That was the only one I applied to, yes, but the
19 purpose of a balance sheet is obviously -- I mean, the bank
20 wouldn't request it if -- we are a service company. We have
21 no other assets.

22 Q. When it comes to the Bank of America --

23 A. Uh-huh.

24 Q. -- was there a time, shortly after the seizure of the
25 money to Mellon Bank -- or from Mellon Bank, that a cashier's

1 check was written to the law firm of Deutsch Williams?

2 A. Yes.

3 Q. Do you recall how much that --

4 A. Yes.

5 Q. -- cashier's check was for?

6 THE COURT: Let him finish his question before you
7 answer it.

8 THE WITNESS: Sorry. I believe it was approximately
9 133, something around that number.

10 Q. Do you know if it was an odd number that was written to
11 the law firm?

12 A. I mean, I don't remember the exact dollar amount. It
13 was, like, 133 plus, you know, that's not really exact.

14 THE COURT: You mean 133 thousand?

15 THE WITNESS: Yes.

16 MR. CASTLE: Your Honor, if I could have an Exhibit
17 marked. You have what I would mark as Plaintiff's Exhibit 1,
18 if I could.

19 THE COURT: One?

20 MR. CASTLE: Plaintiff's Exhibit Number 1, or
21 Government's Exhibit Number 1 is fine.

22 Q. BY MR. CASTLE: Ms. Auterio, let me hand you what's been
23 marked as Government's Exhibit number 1 and ask you if you
24 recognize that exhibit?

25 A. Okay.

1 Q. Is that the cashier's check that was written out to
2 Deutsch Williams?

3 A. Yes.

4 Q. And what amount is stated in that cashier's check?

5 A. \$133,275.88.

6 Q. And what was the purpose of providing a cashier's check
7 to Deutsch Williams?

8 A. We had to retain an attorney to basically find out what
9 happened.

10 Q. How was that amount determined?

11 A. There was no rhyme or reason, no logic to it. I left a
12 portion -- I can't remember exactly what -- in the account,
13 and I wrote the rest out to Deutsch Williams and brought it
14 over to their office.

15 Q. Was that check supposed to serve as a retainer?

16 A. Legal service, accounting, basically our defense and
17 finding, you know, what happened because, at that time, all I
18 knew from Melon -- they just called and told me that our
19 funds had been seized. We had no other information. They
20 wouldn't give us any information, so the first thing I did
21 was called Deutsch Williams.

22 Q. And then the second thing you did was get them a
23 cashier's check?

24 A. Correct. Same day.

25 Q. And this is after you learned that the money had been

1 seized at Melon Bank?

2 A. Correct.

3 Q. At the time that you had that cashier's check drawn,
4 were you aware of the balance in the Bank of America account?

5 A. Yes.

6 Q. Can you tell me what the balance was?

7 A. I mean, I don't know it right now off the top of my
8 head, and I don't even recall how much I left in there. It
9 wasn't a lot more. I mean, I left a minimal balance just to
10 keep that account open in case we needed it because, at the
11 time, I didn't know we were not going to be able to use Melon
12 Bank.

13 Q. So you withdrew all but the minimum balance required --

14 A. All but --

15 Q. -- to keep the account open?

16 A. No. I --

17 THE COURT: Wait until he finishes his question.

18 THE WITNESS: Sorry. I didn't know what the minimum
19 balance was to keep the account open. I just left -- I mean,
20 it was just like a random amount. There was no, you know...

21 Q. But you left a balance in the account --

22 A. I left a balance in the account --

23 Q. -- to make sure --

24 A. -- to keep it open.

25 THE COURT: Are you going to offer 1?

1 MR. CASTLE: Yes, Your Honor, if I could.

2 MR. BROOKS: No objection, Your Honor.

3 THE COURT: 1 is received into evidence.

4 (Government's Exhibit 1 received in evidence.)

5 Q. BY MR. CASTLE: So, at the time that the money was
6 seized out of the Melon Bank --

7 A. Uh-huh.

8 Q. -- in the Bank of America account, there was at least
9 \$130 thousand?

10 A. Correct.

11 Q. And then, at some subsequent time, you received some
12 additional funds?

13 A. Yes.

14 Q. How much?

15 A. Well, after the first week, Deutsch Williams sent me 40
16 thousand so that I could make my payroll. I believe it was
17 about two weeks later, they sent me around a hundred thousand
18 so that I could pay my rent, payroll again. Two more weeks
19 had gone by. I paid my rent, my insurance, some bills, and I
20 received 30 -- a check for 30 plus -- I don't remember the
21 exact amount -- from Melon, and I also deposited that into
22 Bank of America.

23 Q. So, after the seizure, based on the money that was in
24 the Bank of America account, the money that was returned, you
25 were able to meet the expenses of American International?

1 A. Currently, yes.

2 Q. When it comes to the seizure at Melon Bank, if we could
3 turn to -- have as Exhibit A, Your Honor -- if I could have
4 that marked as an Exhibit.

5 THE COURT: Eight?

6 MR. CASTLE: A.

7 THE COURT: A? No. We already --

8 MR. CASTLE: A, I don't believe, has been
9 admitted.

10 MR. BROOKS: My Exhibit A?

11 THE CLERK: We don't need to remark.

12 MR. CASTLE: We could leave it as Exhibit A.

13 THE COURT: Is this his Exhibit A?

14 MR. BROOKS: Yes.

15 THE COURT: So, to avoid confusion you previously
16 wanted us to avoid.

17 Q. BY MR. CASTLE: Ms. Auterio, if I could hand you
18 Exhibit Number A and ask you if you recognize that document?

19 A. Okay.

20 Q. Is that a document that you provided?

21 A. Yes. This is the document I received from Melon
22 Bank.

23 Q. Was it a document that you requested?

24 A. Yes.

25 Q. And the purpose of the request was what?

1 A. Basically to find out how much was seized, and I needed
2 to know what checks had bounced.

3 Q. And does that document reflect the number of checks
4 that bounced?

5 A. On this date, as of September 27.

6 Q. And the number of checks that bounced on that date were
7 how many?

8 A. Let's see. It looks like five

9 Q. What was the total?

10 A. I don't have a calculator here, but less than a
11 thousand.

12 Q. All right. So, as a result of the seizure, only five
13 checks of less than a thousand dollars bounced; isn't that
14 right?

15 A. As of September 27. Anything that would -- I mean, I
16 don't have anything that would have bounced after the 27th.
17 I know there are other checks that were outstanding.

18 Q. That bounced?

19 A. Well, they would have to because Melon closed our
20 account.

21 Q. But didn't Melon provide a grace period prior to
22 closing the account to cover checks?

23 A. Up 'til September 27. And that's when they sent it
24 back. So, anything that had not cleared as of this date.
25 This is the last date that they had. They sent me back the

1 check, which I deposited, but I know that -- I mean, not
2 everyone cashes their checks right away, and I know that
3 there are a few checks that are not cleared that are not on
4 this list.

5 Q. But, according to Bank -- Melon Bank's records, there
6 was only four checks that bounced, of less than a thousand
7 dollars?

8 A. As of September 27, yes.

9 Q. And the seizure occurred on September 7, correct?

10 A. I believe so.

11 Q. So, during that period of time, according to Melon
12 Bank, only four checks bounced?

13 A. Yes.

14 Q. And then you mentioned that you had received a letter
15 from Melon Bank indicating that they were terminating their
16 relationship, correct?

17 A. Yes.

18 Q. The letter also indicated how long they would keep the
19 account open, correct?

20 A. Yes, it did.

21 Q. It also indicated that whatever money they received in
22 the account after the account was closed, that they would
23 give to American International?

24 A. Yes.

25 Q. That amount totaled approximately \$35 thousand?

1 A. Yes.

2 Q. It's that \$35 thousand that you put in the Bank of
3 America account?

4 A. Correct.

5 Q. Ms. Auterio, if we could turn to Exhibit F, which I
6 believe has already been given to you up there.

7 THE COURT: Are you going to offer A?

8 MR. CASTLE: Yes, Your Honor, if I could. Thank
9 you.

10 THE COURT: I would assume there's no objection,
11 Mr. Brooks?

12 MR. BROOKS: No objection.

13 THE COURT: Since it's one of yours.

14 MR. BROOKS: No objection.

15 THE COURT: Exhibit A is received.

16 (Defendant's Exhibit A received in evidence.)

17 Q. BY MR. CASTLE: As you've already indicated, this is a
18 document that you prepared?

19 A. Uh-huh.

20 Q. And this document represents the budget for American
21 International?

22 A. Correct.

23 Q. Correct? In fact, I believe your statement was, this
24 is what we pay on a monthly basis, correct?

25 A. Correct.

1 Q. And some of these expenses you have here are expenses
2 that are due every month, correct?

3 A. I'm sorry?

4 Q. Some of the expenses you've listed on the budget here
5 are expenses that you have every month?

6 A. Yes. Absolutely.

7 Q. But, as you've indicated, some of these are just
8 estimations of what you might need as a product of averaging
9 for some period of time?

10 A. Correct.

11 Q. Included in your budget is a Chapter S Corp.
12 distribution of \$20 thousand?

13 A. Correct.

14 Q. And that goes to Michael Taylor?

15 A. Yes.

16 Q. So, what you're saying is that, after all the expenses
17 are paid, that's when the distribution to Mr. Taylor is made?

18 A. Yes.

19 Q. If we could turn to Exhibit G -- oh, let me just -- if
20 I could just ask you one more question. I'm sorry. On
21 Exhibit F, your monthly budget, then, is \$206,617?

22 A. Yes.

23 Q. And then, going to Exhibit G, if I could have you look
24 at the top of that Exhibit.

25 A. Uh-huh.

1 Q. And if you could go over to the left portion, toward
2 the top there, what you -- did you prepare this document, by
3 the way?

4 A. I did, yes.

5 Q. And what you have done is you've divided up current
6 clients with prospective clients, correct?

7 A. Yes.

8 Q. And you have a column there identified as monthly?

9 A. Yes.

10 Q. Identifying the amount that is received monthly from
11 these current clients?

12 A. Yes.

13 Q. Totaling \$226,813, correct?

14 A. Now, these clients that you have here -- and I don't
15 know if we need to go one-by-one or you whether you can
16 categorize them -- how long have you had this list of
17 clients?

18 A. Some are new. Some we've had since 2001.

19 Q. But you consider them current clients?

20 A. There's a couple that were one-time-only clients, but I
21 put them on here because we did get enough income from them,
22 even at that one time, like it says, NAR, 8,161. That was a
23 one-time client. It shows to the far right. But we
24 occasionally do get one-time clients in a month period. They
25 might only be for that one month. We may not have them the

1 next month. And then, the month after, we may have another
2 one-time. It's kind of variable.

3 Q. In fact, that's the nature of American International's
4 business?

5 A. Yes. I mean, we can't predict.

6 Q. But what you've done here on Exhibit G, you've
7 presented clients that -- some of which you've had since
8 2001?

9 A. Correct.

10 Q. And some of which you have had dealings with, is it
11 fair to say, recently?

12 A. Yes.

13 Q. For example, that very first one -- and I'm sorry, I
14 have a hard time reading that.

15 A. It says News.

16 Q. Is that one of those clients you've had since 2001?

17 A. I think they were probably around 2004, but it was
18 pretty long-term.

19 Q. And maybe what you could do -- I know you've already
20 identified one as kind of a one-job arrangement. Can you
21 identify all the others which you have had a long-term
22 relationship with?

23 A. Sure. The first one, which is News, we have a
24 long-term relationship with them. There's is an average
25 monthly because, depending on what's happening with the news

1 media, we either may have work in any given month or may not.
2 The second one, AC, that is a relatively new client we picked
3 up to do charters, and depending on how their sports team
4 does depends how much work we will get from them.

5 Q. If I could just stop you there for a minute. That
6 relates to the National Hockey League?

7 A. Yes.

8 Q. Okay.

9 A. We just provide screening service so, when they fly in,
10 they have to be screened before getting on the plane, so we
11 provide that service. And if their team does well and they
12 keep coming back to Boston, we will screen them more often.

13 The next one, monthly 250 -- I can't even read the
14 initial it says. That's also another -- I mean, it could be
15 a one-time-only client. They could end up continually using
16 us. They are relatively new as well. The next one down, FE,
17 a thousand dollars. When the circus comes in or the Ice
18 Capades come in, we provide security service, one guard
19 during their show. That's normally twice a year, so it
20 averaged out to approximately a thousand. We have had them
21 probably three or four years now.

22 The next one down, GEP, 2,600, we are expecting they
23 are also another new client that we just received regarding
24 airport screening, and we are hoping their team does well and
25 they come to Boston a lot. The next one down, MPI,

1 69 thousand, that is a customer that we have an open contract
2 with, but currently no job orders listed are presumably
3 future expected, so...

4 Q. And could I just ask you one question about that
5 69,652. Based on the work that you've gotten from them in
6 the past, that has been the monthly average income that
7 American International has received?

8 A. Yes. Up to September. Correct.

9 Q. And would it be correct that you do anticipate
10 receiving work from them in the upcoming -- in the future?

11 A. We hope to. I mean, we have no current job orders,
12 and, at the moment, we still have an open contract, so we are
13 hoping, yes.

14 Q. How long have you had that relationship with them?

15 A. That particular, MPI, is the customer abbreviation, and
16 probably they would probably have been a customer for about
17 five years or so.

18 Q. And if you would just keep going down.

19 A. It looks like MAL, that is also a charter company.
20 Again, depending on how their sports team does, we are hoping
21 to get at least that monthly. MGT, also another charter
22 company at the airport. We just picked up more work with
23 them. NAR --

24 Q. I think you've talked about that one.

25 A. Okay. One-time client. AFS, 37 thousand. That was

1 also based on 2011 activity. Let's see --

2 Q. How long have you had that client?

3 A. That one is relatively new. I'm sorry. That one is
4 the airport. It's kind of hard because it's so small, so I'm
5 trying to go by the numbers. That one is the airport, and
6 that was the client we've had since September, 2001. So we
7 expect that to continue.

8 Q. Now, are you referring to the one that said -- has the
9 figure \$37,467?

10 A. Yes. That's correct.

11 Q. Thank you.

12 A. And the one underneath that, that is part of that same
13 company, SSF, 2,004.78, that is basically the same branch of
14 that same company, so we expect that as well. USA is a new
15 charter company as well, and we are hoping to pick up more
16 work from them; again, depending on sports. WABC, 29,946.
17 They have been a customer probably seven or eight years now,
18 and we do expect to continue to work for them. And WTS,
19 1,794, they were a new client. I don't expect anymore work
20 from them, but anything is possible.

21 Q. Now, just to make sure that I understand these figures,
22 what you've done is you've taken the total amount of money
23 received by American International by these clients, and
24 you've divided it by 12 to get a monthly figure?

25 A. Correct.

1 Q. Would that be right? Am I understanding that
2 correctly?

3 A. Yes. Correct.

4 Q. Because I notice that, with some of these contracts, as
5 you've indicated, they involve hockey?

6 A. Yes.

7 Q. Now, unfortunately, hockey isn't as a big sport out
8 here in the west as it is in the east, but hockey --

9 THE COURT: Don't tell that to the Grizzly's fans.

10 MR. CASTLE: I don't suppose there's any Grizzly's
11 fans here.

12 Q. BY MR. CASTLE: But when it comes to hockey and
13 providing this contract service for them, it's service that
14 you're providing during the hockey season?

15 A. Correct.

16 Q. And the hockey season starts, what, October,
17 November?

18 A. Correct. So the next few months.

19 Q. Right. So what we're really talking about is income
20 right now that is going to be coming into the door to
21 American International in October, November, December,
22 January, February -- well, during the hockey season?

23 A. During the hockey season, depending on how the
24 different teams do.

25 Q. So, if you were to look at the books of American

1 International for these contracts involving hockey, seasonal
2 sports, it's going to be higher during those seasons?

3 A. A little. I mean, it's not a huge job, so even though
4 we may have a couple charters -- so, if that particular
5 charter company comes in three or four times, that will be
6 three or four times probably at best, so it's not going to
7 reach the 29 thousand like, say, our are airport job did, but
8 we'll get a little bit.

9 Q. Maybe the point I'm making -- and let's see if you'll
10 agree with this -- even though you've provided an Exhibit G
11 here with a monthly figure --

12 A. Uh-huh.

13 Q. -- it's just an average of 12 months. It doesn't
14 necessarily represent the timing of when you actually receive
15 the payment?

16 A. No.

17 Q. Now, according to Exhibit G there on monthly income,
18 you've indicated \$226,813; is that correct?

19 A. Yes. That's correct.

20 Q. Now, in looking at current clients, it appears that
21 there's only one client, the very first one, where you
22 actually have to pay the payroll of the security person. Am
23 I right about that?

24 A. Well, it's different. The very first one, which is
25 News, we use contractors because, I mean, it's not a

1 steady -- it's not steady work. They are not a W-2. They
2 are a 1099. So that first one of that 69,000, I would pay
3 those guys a 1099 because their days could vary. I mean, I
4 don't know how long it's going to pay or how much they will
5 work.

6 The rest from the columns down are all people who
7 are W-2's, are employees, and they get paid through our
8 payroll company, SW-2.

9 Q. Thank you. And that would be reflected in Exhibit F,
10 correct, when you're talking about the W-2 employees?

11 A. Yes. I mean, obviously --

12 Q. And if you turn to. Could I have you turn to Exhibit F
13 if you haven't done so?

14 A. Yes. I have it.

15 Q. And could you identify for us which categories we're
16 talking about when we're talking about these W-2 employees --

17 A. The W --

18 Q. -- on Exhibit F?

19 A. The W-2 employees are under payroll. It's the 83,333.
20 However, if I do get more charters, more income, more
21 payroll, so I'm going to have to pay. If I have five more
22 charters, my payroll could go up a little. It will go up a
23 little. Down further there is --

24 Q. I have another question. Are you looking for payroll
25 for contractors?

1 A. Payroll for contractors is the 1099 guys which would be
2 under the 69 thousand. At the very top, it says News 69
3 thousand. It shows that they are paid by 1099.

4 Q. Okay.

5 A. On Exhibit -- I believe it was G. So, they are the
6 people who travel with the News, depending on how much they
7 travel, how much they work. Basically the 20,795 is kind of
8 like averaged out, just like the 69 thousand is. So the
9 difference between the 69 and the 20 is the rough estimate of
10 the profit on that particular job.

11 Q. Okay. So the payroll that you have on Exhibit G for
12 News is actually incorporated back into Exhibit F, your
13 budget?

14 A. That's correct.

15 Q. Under the category of payroll for contractors, MNMAR,
16 LH and HS?

17 A. Correct.

18 Q. Ms. Auterio, when it comes to these prospective
19 clients --

20 A. Uh-huh.

21 Q. -- we've had some discussion about that. Are any of
22 those prospective clients contractually obligated to American
23 International for American International to provide a service
24 to them?

25 A. At the moment, no.

1 Q. Now, we had some discussion about the Afghan contract,
2 and you indicated that there were some costs that you had not
3 anticipated related to that contract?

4 A. Correct.

5 Q. Is it also true that it wasn't anticipated, initially,
6 how long the contract would go for?

7 A. Correct.

8 Q. And, because of that, that required American
9 International to advance more costs than it had anticipated?

10 A. With every job we do. Yes.

11 Q. I'm sorry?

12 A. With every job we have the costs up front before we get
13 paid, yes.

14 Q. Okay. When it came to the Afghan contract, the way you
15 dealt with the unanticipated costs and the extension of the
16 contract was to borrow on the line of credit with Bank of
17 America?

18 A. And to use the profits from my other customers.

19 Q. So, you didn't borrow money from Bank of America to
20 front costs for the Afghanistan contract?

21 A. I did. I mean, it was several months before we
22 received payment. So, I mean, payroll increased quickly, and
23 I couldn't pay payroll and fly guys out there just from the
24 200 thousand that was with Bank of America. My payroll was
25 over 200 thousand, so every two weeks, I was needing 200

1 thousand to pay, so whether it came from one of my -- the
2 profits from one of my other customers or a loan, it was
3 basically juggling to pay it.

4 Q. What you're saying to me is, you used a combination.
5 You used the profits made on current clients and the
6 borrowing of money from Bank of America to handle the costs
7 related to the Afghanistan contract?

8 A. Yes.

9 Q. In fact, wouldn't it be true that, historically, you
10 have relied on the profits of current clients to advance
11 costs for new clients?

12 A. Correct. Yes.

13 Q. And I believe that there was some testimony earlier
14 that, when it comes to non-government type contracts, that
15 the profit margin for American International on all other
16 contracts is about 50 percent?

17 A. Correct.

18 Q. If I could ask you about Exhibit I because I'm not sure
19 I understand Exhibit I.

20 A. Got it.

21 Q. Tell me what Exhibit I is again.

22 A. Exhibit I would be -- so, on my Exhibit G or State's
23 Exhibit G, whichever it is, there's the prospective clients,
24 DE. So, in order to start up this project, I would need to
25 fly my guys over there. I would need insurance. I would

1 need equipment. I would need telephones. I would need
2 office supplies. I would need to get them insurance, and I
3 would need to pay them, which is actually not even on here.
4 So, I would need to front that operation just as I did with
5 the Afghan contract, need to front it with some funds, which
6 we normally would have drawn from our bank account, Melon, to
7 be able to get this going.

8 Q. Does Exhibit I represent the costs for each prospective
9 client?

10 A. For each of these new prospective clients, yes, because
11 they are all that same type of work. They are all basically
12 in a foreign country; set up, flying my guys all over there.
13 They are going to need a place to stay. They are going to
14 need vehicles. They are going to need security with them.
15 So they are all the same type, so they would all need these
16 expenses listed on Exhibit I, as well as payroll.

17 Q. And is Exhibit I -- is that an annual figure, a yearly
18 figure?

19 A. It's a monthly. So, lodging would be 12 thousand
20 monthly. Some of the expenses are annual, like the
21 insurance, I would only have to pay, like, once for that job,
22 but health insurance I would pay monthly.

23 Q. What about air fare there?

24 A. Air fare is four times a year. The guys work 90 days,
25 have two days -- they call it R & R. -- two weeks off and 90

1 days on, two weeks off. So if I have four guys there, every
2 90 days someone will be off.

3 Q. So, how is that air fare \$35 thousand a month, then?

4 A. They fly business class. It's in the contract. So
5 they fly business class, and there will be a minimum of four
6 guys, so...

7 Q. Every 90 days?

8 A. Yes.

9 Q. Now, on Exhibit G, there is a -- there's one column, if
10 I could just briefly talk about it, for prospective clients?

11 A. Uh-huh.

12 Q. It's on the right-hand -- far right-hand side. It's --
13 you know, it's on the second half of that document. There on
14 the left -- excuse me, the far right-hand side, it says
15 number of months?

16 A. Uh-huh.

17 Q. And underneath that it lists the numbers?

18 A. Yes.

19 Q. So does that indicate the number of months for each
20 contract?

21 A. No. Basically that would indicate the number of months
22 through the end of 2012. So, that first contract would not
23 start until October. There would be ten months until that
24 end of the year, and then the next one, our expected start
25 date is February, so there would be seven. Then the next one

1 we expect to start in March, so it would be six months. But
2 we are hoping to have at least a year contract with each.

3 Q. For each one. And so the ten and the seven months
4 represents what's left in the year?

5 A. Correct.

6 Q. Now, Ms. Auterio, when it comes to the tax returns,
7 you've talked about, I believe, the 2004, 2005, and 2006 tax
8 returns?

9 A. Yes.

10 Q. And you made some statements with respect to those,
11 that you're the one who provides the financial information to
12 the accounting firm, and then the accounting firm provides
13 the information back to you in the form of a tax return?

14 A. Correct.

15 Q. When it comes to this 2007, do you know what the gross
16 profits were for 2007?

17 A. I'd have to look, but let me check. Oh, 2007, I don't
18 have. I don't know off the top of my head, no.

19 MR. CASTLE: Your Honor, if I could have this tax
20 return marked as Plaintiff's Exhibit -- I think it's 2.

21 THE COURT: Two?

22 MR. CASTLE: Uh-huh.

23 THE COURT: This is a different year than K covered,
24 right?

25 MR. BROOKS: Correct.

1 THE COURT: And A is the 2007 return?

2 MR. CASTLE: Yes, Your Honor.

3 THE COURT: And I assume there is no objection?

4 MR. BROOKS: No objection, Your Honor.

5 THE COURT: So A (as spoken) is marked and received
6 into evidence.

7 (Government's Exhibit 2 received in evidence.)

8 Q. BY MR. CASTLE: Ms. Arterio, I'm presenting you what's
9 been marked as Plaintiff's Exhibit Number 2. On line 3 it
10 shows the gross profit; is that right?

11 A. Yes.

12 Q. Of \$3,329,457, correct?

13 A. Yes. Correct.

14 Q. And then on line 21 it shows ordinary business income
15 of \$275,762, correct?

16 A. I'm sorry. Which line was that?

17 Q. That would be line 27.

18 A. Twenty-one?

19 Q. Line 21. I'm sorry. Did I say 27?

20 THE COURT: You said 21 the first time and then 27
21 and now we're back to 21.

22 THE WITNESS: It's 21. Yes. I see that.

23 Q. BY MR. CASTLE: So, you had testified that in '07,
24 actually, American International had lost money?

25 A. Yes.

1 Q. This indicates that their ordinary business income was
2 \$275 -- excuse me, \$275,762?

3 A. Yes.

4 MR. CASTLE: Your Honor, if I could have another
5 Exhibit marked.

6 THE COURT: This is three, I assume?

7 MR. CASTLE: Yes. Exhibit -- Your Honor, this is
8 the tax return for 2008. I would have it marked as
9 Plaintiff's Exhibit Number 3.

10 THE COURT: Mr. Brooks, I assume no objection?

11 MR. BROOKS: No objection. I'm sorry. No
12 objection, Your Honor

13 THE COURT: Three is received, the tax return for
14 2008.

15 (Government's Exhibit 3 received in evidence.)

16 Q. BY MR. CASTLE: Ms. Arterio, let me hand you this tax
17 return. Have you seen this tax return before?

18 A. I'm sorry?

19 Q. Have you seen that tax return before?

20 A. I'm sure I have.

21 Q. In fact, in 2008, it shows that the gross profit was 14
22 million 599 dollars 700 -- excuse me -- 14,500,000 -- 599
23 thousand 729 dollars?

24 A. Correct.

25 Q. And that the ordinary business income, which is line

1 21, shows a number of \$2,000,148 and -- \$2,148,158?

2 A. Yes.

3 MR. CASTLE: Another Exhibit to be marked, Your
4 Honor, which would be the 2009 tax returns.

5 THE COURT: Exhibit 4?

6 MR. BROOKS: No objection, Your Honor.

7 THE COURT: Four is the 2009 return and is
8 admitted.

9 (Government's Exhibit 4 received in evidence.)

10 Q. BY MR. CASTLE: Ms. Auterio, let me show you what's
11 been marked as Government's Exhibit 4. Have you seen that
12 Exhibit before?

13 A. Yes.

14 Q. Is that a tax return?

15 A. Yes.

16 THE COURT: Is that a tax return? Did you answer
17 that yes?

18 THE WITNESS: Yes.

19 Q. BY MR. CASTLE: And that's for 2009, correct?

20 A. Yes.

21 Q. And that shows here, on line 3, gross profit of
22 \$24,842,088?

23 A. Yes.

24 Q. And on line 21, ordinary business income, it shows
25 \$4,000,242 -- excuse me, \$4,242,421?

1 A. Yes.

2 MR. CASTLE: And one more Exhibit, Your Honor. That
3 would be the 2010 tax return.

4 THE COURT: Exhibit 5?

5 THE CLERK: Yes.

6 THE COURT: Exhibit 5 is received.

7 MR. BROOKS: No objection, Your Honor.

8 THE COURT: The 2010 return.

9 (Government's Exhibit 5 received in evidence.)

10 Q. BY MR. CASTLE: Ms. Auterio, all the tax returns I've
11 been showing you, they relate to the tax returns for American
12 International?

13 A. Okay.

14 Q. Is that correct?

15 A. Yes. I believe so.

16 Q. Let me hand you what's been marked as Exhibit Number
17 10.

18 THE COURT: Five?

19 MR. CASTLE: Excuse me. Exhibit Number 5. I was
20 thinking tax return of 2010.

21 THE COURT: 2010, yes.

22 Q. BY MR. CASTLE: Ms. Auterio, on line 3, what does it
23 show as its gross profits?

24 A. \$24,161,125.

25 Q. And when it comes to line 21, what does it show as

1 ordinary business income?

2 A. \$4,678,060.

3 Q. When it comes to the Melon Bank account for the
4 beginning of January, 2011 --

5 A. Uh-huh.

6 Q. -- do you know how much money was in that account at
7 the beginning?

8 A. Not off the top of my head, no. I would have to look
9 at the the statements.

10 Q. If I said to you about \$8 million, would you have any
11 reason to dispute that?

12 A. I mean, it could have been.

13 Q. You just don't recall?

14 A. I don't, no.

15 Q. So, when it comes to the years 2007, 2008, '9 and '10,
16 American International was a profitable company?

17 A. Yes.

18 Q. In fact, every year that you've been associated with
19 American International, it has been a profitable company?

20 A. Yes. I mean, we've had ups and downs, but basically we
21 have been profitable.

22 Q. Meaning that you have always made more money than you
23 have spent?

24 A. Yes. That's the plan.

25 Q. Let me ask you this question. Based on the

1 circumstances in which American International finds itself,
2 why isn't it willing to borrow money from Bank of America to
3 tie it over during this period of time while it waits for
4 contracts that it might have to advance costs?

5 A. I'm sorry. Could you -- I'm not sure what the question
6 was.

7 Q. Well, let me repeat. The question I have is, why is it
8 that American International is not willing to borrow on its
9 line of credit with Bank of America to cover costs it might
10 have to advance during this period of time?

11 A. Well, because, historically, what we've done was use
12 the profits from the previous work to cover our new projects,
13 and that was what the plan was for this, use the profits that
14 we made in the last year to cover our new projects. So, I
15 mean, technically, we shouldn't need to borrow when we made a
16 profit.

17 Q. Any money that you receive back, the intent is to spend
18 that money; is that correct?

19 A. Is to invest in our new projects.

20 Q. And what you mean by invest in new projects, you mean
21 advance the costs?

22 A. Correct.

23 Q. Which means to spend?

24 A. To spend.

25 Q. But, as we talked about with Exhibit G, because it

1 appears that though some of these contracts are seasonal,
2 money is -- more money is going to be coming in here in the
3 fall 'til the end of the year kind of a thing?

4 A. It's not -- it wouldn't even cover the air fare. The
5 money that's going to come in, we're talking in the couple
6 thousand dollars. That might cover me flying one guy. So,
7 if I had all these charters, it's -- you know, and I still
8 have to pay the people that did those charters.

9 Q. But you anticipate, from these current clients, you're
10 making 50 percent profit?

11 A. Yes. That's the plan.

12 Q. And what you don't know, though, is what prospective
13 clients you're going to have in the future, correct?

14 A. Correct.

15 Q. In fact, what we have is, the first three lines for
16 prospective clients involving -- it looks like Iraq?

17 A. Uh-huh.

18 Q. They were supposed to start this month?

19 A. They were this month.

20 Q. But they haven't, have they?

21 A. Well, it hasn't started, but I have received e-mails
22 that they have received their paperwork necessary to begin
23 working there and expect it within the next few weeks, so I
24 am pretty confident that that will happen.

25 Q. But, as you indicated, there is no signed contract?

1 A. There is no guarantee. There is no signed contract.

2 MR. CASTLE: If I could have just a minute, Your
3 Honor?

4 THE COURT: You may.

5 Q. BY MR. CASTLE: Ms. Auterio, just a couple more
6 questions. Going back to Exhibit F, if we could, for a
7 minute. What I'd like to do is talk to you about that one
8 you have toward the bottom, for legal and accounting fees, of
9 \$18 thousand?

10 A. Yes.

11 Q. How much of that is for legal fees, and how much of
12 that is for accounting fees?

13 A. At the moment, I don't know. I don't know what my
14 legal fees or accounting fees are. This was a combined
15 estimate from both, basically combined estimate of going
16 forward. Obviously, I'm not an accountant, so we are going
17 to need someone to go over our taxes and basically verify
18 anything in QuickBooks and as well as legal fees. And
19 there's -- I don't really know what the separation margin is.

20 We have, obviously, a local attorney as well as
21 Massachusetts, so our attorneys' fees will be much greater
22 than the accounting.

23 Q. But haven't you paid some attorneys' fees already
24 related to this case, shortly after the money was seized?

25 A. Technically, they gave us most of that back to pay

1 payroll and bills. So, I don't know if any -- I believe
2 there was 8 thousand or so paid to one attorney, and so far
3 that was it.

4 Q. In fact, some of the legal fees were to pay for an
5 attorney for you?

6 A. That was the one that was 8 thousand, the only one that
7 I know of that was paid.

8 MR. CASTLE: I'm sorry, Your Honor, if I could have
9 just one moment.

10 Q. BY MR. CASTLE: I'm trying find, Ms. Auterio, the
11 exhibit that talks about how much money you have in --

12 A. Current accounts?

13 Q. I believe that is Exhibit E. Would you turn to that?

14 A. I have that, yes.

15 Q. You will notice there it talks about Bank of America?

16 A. Uh-huh.

17 Q. Gives the account and the amount. It also has an entry
18 for the Deutsch Williams client funds account. It says
19 \$62,275.88?

20 A. Yes.

21 Q. So that's not an amount of money that's in an account
22 of American International?

23 A. No. It's not in our bank account. No.

24 Q. That's with Deutsch Williams?

25 A. Correct.

1 Q. That's to pay their legal fees?

2 A. Unless I need it to help pay payroll. I mean, at the
3 moment, it's there for that. However, if I was to call and
4 need additional funds to make payroll, that's what the other
5 money they gave back for.

6 Q. So, it sounds like you have an agreement with Deutsch
7 Williams that goes something like this. You paid them a
8 retainer of more than \$133,000?

9 A. Uh-huh.

10 Q. Correct?

11 A. Correct.

12 Q. And then, if you need money for payroll, you can call
13 them, and they will pay you what you need for payroll?

14 A. I hope so.

15 Q. And that's instead of borrowing on a line of credit?

16 A. Yes.

17 Q. Now, you also mentioned something about credit cards.
18 You used credit cards in the past. Could you explain that
19 again for me?

20 A. Yes. We normally use our credit cards, so if I need to
21 fly someone, we call the travel agent, we put the air fare on
22 the credit card. We also put the hotel -- most hotels, you
23 know, they are not just going to check someone in, so we have
24 to give a credit card authorization for the hotel, whether it
25 be Iraq, Indonesia or wherever. Any supplies they may need,

1 we will get and we will ship over. Things like that
2 nature.

3 Q. Now, going back to Exhibit G -- and not that you have
4 to turn back to Exhibit G. -- but your current clients,
5 wouldn't those be characterized as an asset of the company?

6 A. I'm sorry?

7 Q. Your current clients --

8 A. Uh-huh.

9 Q. -- and your relationships with them and the anticipated
10 income, wouldn't those be considered an asset of American
11 International?

12 A. I suppose.

13 Q. If I could get you to turn, again, to Exhibit 5, which
14 is the tax return for 2010.

15 A. Okay.

16 Q. And I'm going to need you to turn to page 4, if you
17 could.

18 A. Yes.

19 Q. And if I could -- this is Schedule L. Can you see that
20 up there on the left-hand top corner?

21 A. On page 4?

22 Q. Well, I'm sorry. It's page 6.

23 A. Okay.

24 Q. Do you see at the top where it says Schedule L?

25 A. Assets. Yes.

1 Q. And it says balance sheet per Brooks. So I'm over here
2 on the left-hand side of this document.

3 A. End of your tax -- beginning of tax year. Oh, balance
4 sheet per Brooks -- books.

5 Q. I'm sorry, books. Yes. It has a line there, number 1,
6 for cash. And it says beginning of tax year, \$1,660,381?

7 A. Yes.

8 Q. That's column B. And at the end of the year, it says
9 \$5,292,756?

10 A. I see it.

11 Q. And then going down to 2A, which is entitled Trade
12 Notes and Accounts Receivable, you see there at the beginning
13 of the tax year, it says the amount is \$4,429,831?

14 A. Uh-huh.

15 Q. And then, if you go over to end of tax year, it
16 indicates that the trade notes and accounts receivable are
17 \$2,000,822 and 900 -- excuse me, \$2,822,930?

18 A. Yes.

19 Q. Does American International consider an account
20 receivable an asset of American International?

21 A. Yes.

22 MR. CASTLE: If I could have just one moment.

23 THE COURT: Yes.

24 MR. CASTLE: Your Honor, those are all the
25 questions.

1 THE COURT: Thank you, Mr. Castle.

2 Any redirect?

3 MR. BROOKS: Just one question.

4 THE COURT: I like the sound of that.

5 REDIRECT EXAMINATION

6 BY MR. BROOKS:

7 Q. Ms. Auterio --

8 A. Yes.

9 Q. -- you said that bills were paid from -- bills for the
10 next year were paid from the profits of the prior year?

11 A. Yes.

12 Q. All those profits were in the Melon Bank?

13 A. Yes.

14 MR. BROOKS: Thank you. No further questions.

15 THE COURT: Thank you. Any recross?

16 MR. CASTLE: No, Your Honor.

17 THE COURT: You may step down, Ms. Auterio. Thank
18 you.

19 THE WITNESS: Do I leave these papers here?

20 THE COURT: Yes.

21 All right, now, what else are we going to do?

22 MR. BROOKS: Your Honor, we have the accountant,
23 Mr. Schwartz. It's not my intention at this time to call
24 him. I hold him in reserve depending on what witnesses, if
25 any, that the government calls.

1 THE COURT: All right.

2 MR. CASTLE: Your Honor, we don't intend on calling
3 any witnesses.

4 MR. BROOKS: Then I don't intend to call
5 Mr. Schwartz. We rest our matter.

6 THE COURT: So we're done with the witnesses?

7 MR. BROOKS: Yes, Your Honor.

8 THE COURT: Do you want to make a closing argument?

9 MR. BROOKS: Yes, Your Honor.

10 THE COURT: Can you do it in 15 minutes or less?

11 MR. BROOKS: I could do it probably in seven minutes
12 or less.

13 THE COURT: What about you, Mr. Castle or Ms. Weld?

14 MS. WELD: Yes, Your Honor.

15 THE COURT: Go ahead.

16 MR. BROOKS: Your Honor, much of what I said in the
17 beginning of this case, in the beginning of this hearing
18 today, is come to pass. I think we have established
19 everything we need to do under 983 for the return of the
20 money. I think the only witness who has testified in this
21 matter has testified, with absolute clarity, that the assets,
22 the -- really, the only asset of American International was
23 seized.

24 The goodwill or the accounts receivable that are
25 alluded to by the government as an asset are only an asset if

1 you can continue conducting business. Once you cease
2 conducting business, that asset disappears. And that is
3 what's going happen to American International.

4 It is uncontested now that the monies that they took
5 were monies that were used to capitalize American
6 International. That has been withdrawn. They have
7 effectively seized the business. They have -- they haven't
8 closed it down because it won't be closed down, assuming they
9 don't want any new business, but once that new contract comes
10 in and they no longer have the capability to fund that
11 project, they are effectively out of business for new
12 clients.

13 And, as you can tell, they have a stable of existing
14 clients, but they are not enough to support the
15 infrastructure of this company without promoting and
16 marketing themselves and getting new clients. That's what
17 the money is for. That is the model. Whether it was correct
18 to keep \$5.3 million in the account, that's a business
19 judgment. But that's a judgment that a tax payer, a citizen,
20 who pays all the taxes on this income -- so the government
21 says, "We won't give you your money back, but thanks for
22 paying the taxes." We really like that.

23 I haven't heard whether they are going to offer to
24 pay back the taxes that we paid on the income, but they will
25 take our money. Whether the law gives them a right to take

1 the money, the trigger tests in 983 apply, and we have met
2 every standard under that to get that money returned. They
3 are not what the cases that the government puts in their
4 brief are.

5 This is not a sham operation. This is a legitimate
6 business, should be treated as a legitimate business. But
7 their counter argument to that is they are focusing on how
8 much attorneys' fees have to be paid. Well, attorneys' fees
9 have to be paid because they brought an action. American
10 International is not going to create money for Deutsch
11 Williams if they don't have to. They have to because
12 somebody decided they would seize their money and create an
13 underlying criminal Complaint backing up the in rem
14 procedure.

15 They brought this action to bear. The government is
16 responsible for what they did. We are simply reacting to
17 what they did. And we will continue to react to what they
18 did. But this is a legitimate company, with legitimate
19 business concerns, and it has an absolute right to conduct
20 business like any other business. And that means you can't
21 take my money, and you can't tell me how to spend my money,
22 and you can't tell me that I can't afford to market new
23 clients because you've taken my capital.

24 Borrow money. Great. That's exactly what has
25 gotten this country into trouble. We borrow money. Well,

1 they want us to borrow money, and now they say borrow more
2 money. Don't give me back my money that we earned on a -- I
3 don't care what they say. This was a contract. Services
4 were performed. We did not make an outrageous profit on that
5 contract. We earned that money. That money belongs to
6 American International, and it doesn't belong to the United
7 States Government. We paid the taxes on that. That's the
8 part that they are entitled to, and they got it.

9 We want it back. We believe we deserve it back and
10 we believe we have met all the tests that the law puts
11 forward. Thank you, Your Honor.

12 THE COURT: Thank you, Mr. Broods.

13 Ms. Weld.

14 MS. WELD: Thank you. Well, Your Honor, just to
15 reply to counsel's assertion that they have an absolute right
16 to the money; that, of course, is up to the Court to
17 determine.

18 We have a couple of points to make on some of the
19 exhibits that have been provided, and I think that the
20 evidence does establish what both of us indicated, promised
21 to you this morning at 9:00 o'clock, that it would. And that
22 is that the doors are still open with the company. They are
23 suffering some hardship, but the company has not been
24 rendered dysfunctional or unfunctional or unable to function.

25 They are historically a profitable company. They

1 were quite flush with cash during the years of the Afghan
2 contract, which made up a good bit of their business. But,
3 as Ms. Auterio indicated, they were able to take out some
4 borrowing for advance expenses when that contract began. The
5 money that was left over, which the government seized
6 pursuant to the warrant, was money that was essentially the
7 profit and was actually a reduced amount of profit that was
8 made largely from that Afghan contract.

9 Should the money be released at this point in time,
10 it will be spent. There is no offer of surety or any other
11 substitute res to cover any currency that would be released,
12 and we would be unable to restrain any other assets of the
13 corporation going forward into trial in this matter.

14 Obviously there can be a trial. If AISC prevails,
15 the funds would be released with the accrued interest at that
16 time.

17 I just want to point out a couple of the problems
18 that we have with a few of the exhibits and some of the
19 testimony. As you know, Your Honor, the cases do very, very
20 clearly say that funds should not be released under 983 (f)
21 under a hardship provision; that is, for attorneys' fees.
22 Attorneys' fees are included in the budget that had been
23 given to the Court, of \$18 thousand a month.

24 The purpose, as Ms. Auterio said, has to do with the
25 litigation expenses of this case, not as to the ongoing

1 expenses that the company would incur with regard to engaging
2 in contracts or legal maneuvers that might require legal
3 services. So, according to the evidence that the company has
4 given you, those attorney -- that money is factored into the
5 monthly budget.

6 The other item, of course, would go to the CEO
7 Mr. Taylor of roughly 20 thousand a month, which should not
8 really be distributed, and I think Ms. Auterio indicated
9 this, until all of the other expenditures of the company for
10 that month have been taken care of. So, in other words, you
11 cannot operate at a loss and also make Subchapter S
12 distributions.

13 They have made the point that they are operating at
14 a loss now. We don't really -- well, I take that back. I
15 think that the position of the company and the government is
16 that they are keeping their heads above water, they are
17 operating at a profit. It's not a large profit, but if you
18 take their own figures of 226 thousand or so a month,
19 averaged out for income stream. They still have an income
20 stream, according to their own figures, the monthly budget of
21 \$206 thousand.

22 And if you back out the amount for attorneys fees
23 and you back out some of the Subchapter S Corporation, they
24 have sufficient funds, Your Honor, that are being received
25 now to build up a capital reserve that can then partially be

1 used in connection with some borrowing, as was done in 2007
2 on the Department of Defense contract, to meet the advance
3 costs of the additional contracts that are expected.

4 And, as Ms. Auterio said, those costs are reimbursed
5 at a profit margin of about 50 percent once those contracts
6 go into place. We cannot seize those additional profits in
7 the future, the forfeiture in this matter, in this
8 litigation, as proceeds of the underlying Department of
9 Defense contract. We have an obligation, Your Honor, to have
10 gone forward with that seizure, to obtain what we can from
11 this company and also the other alleged co-conspirators in
12 this case, for restitution to the Department of Treasury,
13 for the \$50 million that the contract itself was valued at.

14 And, again, if these parties do prevail on the
15 merits of the case, the assets would be released to them, but
16 this company was the essential vehicle through which those
17 funds were paid and deposited. It started as a small
18 contract and then it grew. This company is also the vehicle
19 through which the approximately 30 percent of the entire
20 contract went to Mr. Harris, who we still don't really know
21 what all he did, but AISC was paying Mr. Harris.

22 So, on the law and also on the evidence that you've
23 received, we would first argue that they have not shown that
24 the company itself has been seized, which is required by the
25 case law, and that even on the facts of the case, under the

1 hardship provisions of 983 (f)(1)(C) and (D), they certainly
2 have not shown that the hardship caused to the company is
3 greater than the risk that the funds, once they are released,
4 whatever amount, would be spent.

5 And, Judge, they haven't even given you a number as
6 to what would be needed to keep the doors open. Exhibit I is
7 a very fluctuating kind of mushy sort of estimation. I can
8 see that it is a little difficult to forecast some of the
9 expenditures, but they have not given a number as to what
10 would be needed.

11 And also Exhibit, I believe it's E, that shows the
12 current assets of the company, does not include the hundred
13 thousand that was released by the Court and the hundred
14 thousand that's still owed to the company by the vendor that
15 Ms. Auterio spoke of. So, we would ask you, based on the law
16 and on the facts to deny the hardship petition. We believe
17 that the law simply doesn't permit any release at this point
18 in time without a substitute res in property, which has not
19 been proposed.

20 And we thank you very much for the opportunity to --
21 I thank you for the opportunity to appear pro hac vice.

22 THE COURT: Thank you.

23 A brief reply? You don't need to if you've said
24 everything you want to say.

25 MR. BROOKS: Yes, Your Honor. Just one point.

1 Ms. Weld alluded to it. I don't see the government has made
2 any proof that the hardship to the government outweighs the
3 hardship to American International Security. There has been
4 no evidence to support that.

5 Thank you, Your Honor.

6 THE COURT: Thank you. And I'll take this matter
7 under advisement and get a ruling out as quickly as I can.
8 I know that time matters in these kinds of things. Thank you
9 all. We'll be in recess

10 MR. BROOKS: Thank you, Your Honor.

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25 (Whereupon the proceedings were concluded.)

1
2 REPORTER'S CERTIFICATE
3

4 STATE OF UTAH)
5 COUNTY OF SALT LAKE)
6

7 I, REBECCA JANKE, do hereby certify that I am a
8 Certified Court Reporter for the State of Utah;

9 That as such Reporter I attended the hearing of the
10 foregoing matter on October 7, 2011, and thereat reported in
11 Stenotype all of the testimony and proceedings had, and
12 caused said notes to be transcribed into typewriting, and the
13 foregoing pages numbered 1 through 115 constitute a full,
14 true and correct record of the proceedings transcribed.

15 That I am not of kin to any of the parties and have
16 no interest in the outcome of the matter;

17 And hereby set my hand and seal this 10th day of
18 January, 2012.

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25 REBECCA JANKE, CSR, RPR, RMR